

Focus

Foreign-invested Companies
**Sticking to Excessively High
Dividend Rate**

MICE

2013 Cosmetics & Beauty Expo,
Osong Korea
Promoting Korean Beauty

Economics

Economic Growth Rate
**Forecasts Revised
Downward**

BUSINESSKOREA

FEBRUARY 2013 / VOL. 31 No. 337

www.businesskorea.net



Overseas Natural Resources Development Who Is to Spearhead Korea's Policy?

8,000 won

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9 771016 530003
ISSN 1016-5304



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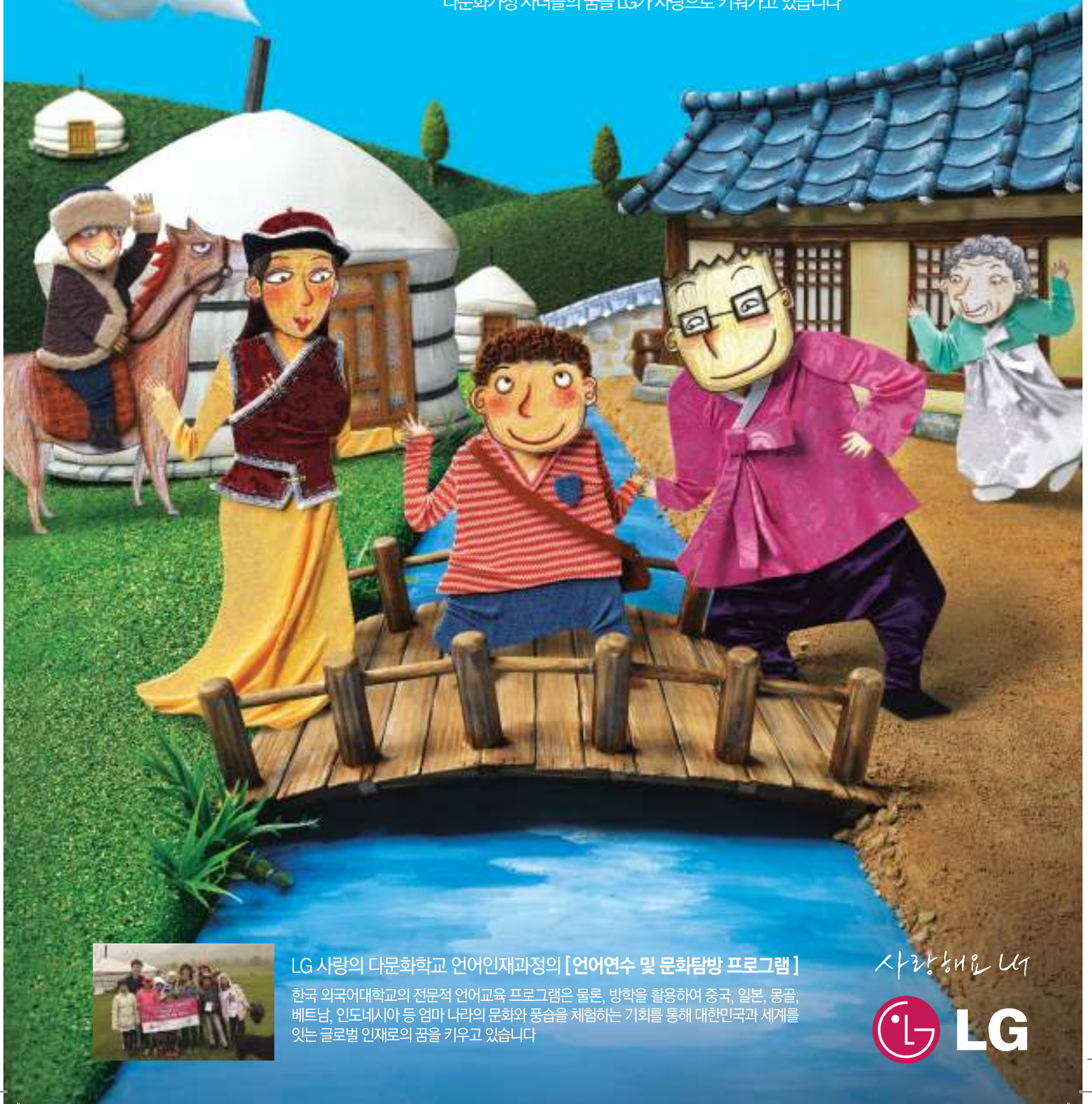


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KIGAM is mentioned as the "control tower" while others say it would be better for it to remain a researcher and information provider

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BUSINESSKOREA

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PUBLISHED BY: BusinessKorea Co., Ltd. : 301 Samdo Building,
 12-1 Yeoido-dong, Yeongdeungpo-gu, Seoul, Korea 150-010
Mailing Add.: 301 Samdo Building,
 12-1 Yeoido-dong, Yeongdeungpo-gu, Seoul, Korea 150-010
Tel: (02)578-3220 **Fax:** (02)578-3224
 Government Registration Number: RA-2743 Dated March 18, 1983.
 Printed by Hwashin Printing Tel: (02)2277-0624

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To Our Readers



What does the US have in mind concerning the recent currency war, the hottest issue in today's global economy?

The G20 Financial Ministers Meeting held last week in Moscow neither criticized Japanese Prime Minister Shinzo Abe's weak yen policy nor came up with any measure to deal with the circumstances, only stopping at a statement that further competitive exchange rate devaluation will have to be avoided. Experts' consensus is that it is the United States that led the drafting of the statement.

In fact, few American economic news channels are issuing articles critical of Japan's stance in the foreign exchange war as of late. Meanwhile, an increasing number of economists are taking sides with Japan. For example, Harvard University professor Niall Ferguson has remarked in his The Financial Times column, "It isn't right to brand Japan as the main culprit of the global currency war because the entire world has been engaged in that war during the past 40 years since the US adopted the floating exchange rate system in 1971." Furthermore, he went so far as to say, "Korea is a kind of hypocrite if it blames Japan with the won having been devalued by 19% since 2007 vis-à-vis the US dollar."

The US is siding with Japan for various reasons, one of which is self-contradiction. As is well known, the US has been engaged in unprecedentedly aggressive quantitative easing for a weak dollar since the recent financial crisis and is therefore in no position to blame Japan's expansionary monetary policy. Besides, the US is intending to create more jobs by increasing its exports and thus Japan's economic recovery based on the weak yen is welcome news. The Bank of Japan could sell the yen to purchase its Treasury bonds, too.

Wall Street experts are predicting that Japan, now that it has confirmed the tacit agreement of the US, is likely to speed up the depreciation of the yen and this is far from good news for Korea, one of its rival exporters. Still, we should not forget the lesson from the KIKO scandal that followed the excessive foreign exchange depreciation and drove so many small businesses into a corner during the early days of the Lee Myung-bak administration. Any more-than-necessary artificial adjustment of the exchange rate does good only to speculators. Instead, the Park Geun-hye government should ensure that the rate moves within a predictable and reasonable range. The current situation is calling for a wise, prudent response.

Park Jung-hwan,
 Publisher & Editor-in-Chief



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Foreign-invested Companies

Sticking to Excessively High Dividend Rate

It has been found that major foreign-invested companies in Korea, including multinational IT companies and global automakers, are having little positive effect on the domestic economy, despite currently enjoying record sales. Experts are predicting that the size of the dividends they take away from the Korean market will not decrease this year, although the headquarters of some leading car importers are moving to conclude supply contracts with Korean auto part manufacturers.

According to the Financial Supervisory Service, the headquarters of foreign-invested companies in Korea are taking away bigger dividends than Korean enterprises. On average, the former are taking 60% to 90% of their annual net profits, which is quite different to Samsung Electronics and Hyundai Motor Company retaining or re-investing at least 60% of their local earnings overseas.

Such dividend policy is posing serious concerns to their subsidiaries and branch offices in Korea, as main offices abroad continue to notify them of the size of annual profits and dividends unilaterally. "Each local office is notified of how much profits and dividend must be given to the main office when yearly business plans are drafted," said a financial director of the local subsidiary of a German company, adding, "Most subsidiaries of German corporations have been squeezing themselves to meet targets."

For example, Mercedes Benz has recorded a high sales growth rate in Korea, ranking second in the market for years in terms of sales volume, yet it has took a large amount of dividends every



year between 2007 and 2011. Not a few multinational companies took away dividends from their local subsidiaries during the same period, regardless of market situations and even when they posted losses.

The dividend to net profit ratio of Mercedes Benz increased rapidly between 2008 and 2010. In 2008, the company recorded a net profit of 5.6 billion won, sending 50% of this to the head office in Germany and Star Auto Holdings, the second-largest shareholder. This percentage rose to over 87% (18 billion won) and 90% (21.2 billion won) in the following years. Although the percentage was lowered to approximately 30% in 2011, the four-year average dividend rate was still approximately 64%,

which is 1.8 times higher than the overall average of all foreign-invested enterprises in Korea. "Most German automakers think of the Korean market not as an object of reinvestment, but a sort of cash cow" said a high-ranking executive of Hyundai Motor Company.

The story is not that different for Japanese carmakers. Toyota took 100% of local market profits, approximately 13.7 billion won, in 2007 and maintained a dividend payout ratio as high as 50% and 62% in 2008 and 2009, taking away 15 billion won in total. In 2009, the Korean subsidiary of Toyota posted a net loss of 9.7 billion won.

American IT companies such as IBM and Intel are following a similar trend. Since they are not running production

facilities in Korea, but rather research institutes, most of the local affiliates' profits are sent to the main offices, excluding labor costs. Intel Korea is a fully-owned subsidiary of Intel. The former paid an interim dividend of 25 billion won out of net profits of 43.9 billion won in 2009. In 2007, the current net income stood at just 0.33 billion, while the dividend rate reached 1,966%.

"Korean firms affiliated with American IT companies are engaged only in sales, and thus their parent companies see no reason to reinvestment in them," said an IT security industry insider, continuing, "It is no stretch to say that most of the sales profits of these firms are taken away as dividends by headquarters."

FTC Digging into Business Practices

In the meantime, the Fair Trade Commission (FTC) started an on-site investigation into the unfair business practices of car importers in Korea. Under such circumstances, some experts are pointing out that it could provoke trade disputes, with their local market share rising rapidly and Hyundai Motor Company and Kia Motors discounting their products to protect their home turf.


The watchdog sent investigators to BMW Korea, Mercedes Benz Korea, Audi-Volkswagen Korea and Toyota Korea on February 19 for inspection purposes. The teams looked into the prices of their imported vehicles and auto parts, the possibility of preferential treatment for associated finance companies, unfair trade practices between importers and dealers, including the maintenance of the resale price to keep the prices of vehicles and auto parts at a high level, etc. The FTC has been engaged in document-based investigations into unfair practices since earlier last year, but this is the first time that it has sent teams of inspectors.

Car importers in Korea did not lower the prices of their products even after the implementation of the FTA between the EU and Korea that reduced the tariff burden. Even so, their local market share



reached a new high of 12.9% in January. A total of 130,000 imported cars were registered in 2012 alone, when the percentage topped the 10% mark for the first time ever.

The prices of auto parts for imported cars are much higher than those

for domestically produced ones, too. According to the Korea Insurance Development Institute's 2011 data, such foreign parts cost approximately 6.3 times more. Furthermore, costs calculated for labor and paint were 5.3 and 3.4 times higher as well. 

BMW Korea

Korea Becomes Its 10th-Largest Market

BMW Korea sold 34,079 cars in Korea last year, making the country the 10th-largest market for the German luxury carmaker.

BMW plans to boost sales here by another 10 percent this year. "Until 2011, Korea ranked 13th in terms of sales," said Kim Hyo-joon of BMW Korea. "But last year Korea overtook Spain, Australia and South Africa to reach the 10th spot for the first time."

The carmaker saw global sales rise 10.6 percent year-on-year in 2012 to 1.85 million vehicles. But sales in Korea increased 24 percent. However, Kim said BMW ended up posting an operating loss in 2012 despite achieving 1.72 trillion won (US\$1.58 billion) in sales, up 17 percent from 2011, due to foreign exchange losses from the weak euro.

BMW Korea plans to start sales this year of eight new models, including a face-lifted 5 Series and a 4 Series Coupe designed by a Korean. The German automaker will also build another 14 service centers in addition to the existing 42. The number of car mechanics will also increase 19 percent.

Next year the automaker plans to launch the i3 electric car and i8 hybrid here. The i3 will first hit showrooms in some countries like Germany and the U.S. in the second half of this year.



Park Geun-hye Government

Heading Toward the Second “Miracle of Han River”

President Park was sworn in as 18th President of Korea promises to seek economic revival, cultural prosperity and the nation's wellbeing

“I, as the President of the Republic of Korea, will satisfy the will of the people in striving for economic revival, cultural prosperity and the wellbeing of the nation,” said President Park Geun-hye on February 25 at her inauguration ceremony, adding, “I’ll dedicate my all to your happiness.”

The inauguration was held in front of the National Assembly building located in Yeouido, Seoul. It was attended by more than 70,000 participants, including honored guests from home and abroad and the general public. The title of the inaugural address was “Opening the New Era of Hope.” At the ceremony, she mentioned economic revival, cultural prosperity and the happiness of the nation as her key agenda for the upcoming five year tenure, promising that she would contribute to the welfare of the people.

“Today is the very first day of my setting out to meet the great challenge of creating another miracle of the Han River with all people,” she went on, “I’ll be in pursuit of creative economy and economic democratization to achieve the goal of economic prosperity.” Though the term of democratic democratization had not been found in the 140 national administration agenda items announced last week by her transition team, she mentioned it in person, meaning it is likely that the new government will accelerate its efforts for corporate governance restructuring and eradication of unethical business practices.

“At the center of creative economy are science technology and information communications technology,” she stated, adding “The Ministry of Creative Science for Future will take a leading role in the quest for a new economic paradigm.” With



President Park Geun-hye is taking the oath of office at the inaugural ceremony held on February 25.

regard to economic democracy, she remarked, “One of my most important goals is ensure that big businesses and small and mid-size enterprises thrive together through policy measures to assist the latter. To this end, I’ll root out unfair practices handed down from the past.”

She also emphasized that she would bring happiness to all people by means of effective welfare policy. “My new, tailored welfare policy paradigm is to guarantee that all people make their living without any unnecessary worries. I’ll do my best so that anyone can enjoy a life of ease in his or her old age and give birth to and raise their children with no worries,” she said.

“During my term, all people will enjoy a cultural life, while creative activities are supported in various genres and the cultural contents industry is promoted through convergence with cutting-edge technology that will create jobs and accelerate the advent of a creative economy,” added the president.

In the meantime, she stressed that North Korea’s nuclear tests and missile development program would not be tolerated. “The North is threatening the peace of the Korean peninsula and the future survival of the nation, but the biggest victim of such activities will be none other than North Korea. I urge the country to renounce its nuclear ambitions right away and aim for mutual prosperity.”

Economic Revival and Democratization: Park Geun-hye Government’s Key Words for Creative New Era

President Park emphasized the keyword of economic revival in her inaugural ceremony on February 25, mentioning creative economy as one of the most important tools for it. “What I mean by creative economy is inter-technological and industrial convergence, the combination of culture and industry and the creation of something new across industrial boundaries,” she remarked.

Her theory of creative economy is directly related to the new government’s goal of achieving an employment rate of 70%. The electronics, automobile, shipbuilding, steelmaking and petrochemical industries, which have led the economic growth of Korea for the past half century, are now in their maturity stage and thus have their own limitations in terms of job creation. What the president is aiming to do is seek new growth drivers and create more jobs by means of advanced scientific and information communications technologies.

The establishment of the Ministry of Creative Science for Future, one of her election pledges associated with creative economy, is completed once the revision bill to the National Government Organization Act proposed recently by the government is approved by the National Assembly.

Many people are paying keen attention to what specific policy will be implemented by the new ministry. Some of the anticipated policies are those for the promotion of creativity-oriented small and mid-size enterprises (SMEs) and startup firms led by young businessmen, expansion of national R&D




President Park Geun-hye is reading people’s letters in Gwanghwamun Plaza after finishing her inaugural ceremony in front of the National Assembly building in Yeouido, Seoul.

investment, establishment of a new concept for the cultural content industry, revitalization of the information communications industry and advancement of science technologies and the culture industry.

For the first goal, the government is planning to foster young entrepreneurs by providing colleges with more startup assistance functions. Tax incentives and financial support will be increased in accordance with the Special Tax Treatment Control Act so that more young company founders can benefit from angel investments, with the government raising funds to that end in conjunction with major corporations. Furthermore, the government will come up with M&A support measures to help venture firms increase their presence and strength in the industry.

In the meantime, the president promised during her campaign that she would raise the ratio of national R&D investment to GDP to 5% by 2017. The percentage was 4.03% in 2011. The new investment is concentrated on SMEs and long-term research and development projects. In addition, some of the budgets of government-funded research institutes will be invested in R&D projects of SMEs in a quota system to be newly introduced.

The Information Communications Technology Transfer Center and the Contents Korea Lab have been founded for the revival of the information communications and cultural content industries, with some funds raised to back up their activities. Daejeon City has grown as the capital of science and technology, with cultural industrial hubs also built in northern Gyeonggi Province and the metropolitan region. 

New Ministers Nominated

President-elect Completed Selection of Ministers



Hyun Oh-suk, the Head of the Korea Development Institute

On February 17, President-elect Park Geun-hye nominated Hyun Oh-suk, head of the Korea Development Institute, as the Deputy Prime Minister for Economic Affairs and Minister of Strategy and Finance and picked out persons to be in charge of 10 more ministries during her term. She had announced nominees for six other ministries on February 13 and finished forming her government at this time before the confirmation hearing scheduled for February 25.

The position of the Deputy Prime Minister for Economic Affairs is reinstated for the first time in five years to administer economic affairs in general. Its nominee Hyun Oh-suk has worked for the Economy Planning Board and served as a World Bank economist and the chief of the Economic Policy Bureau of the Ministry of Finance and Economy, which is the predecessor of the Ministry of Strategy and Finance.

Venture entrepreneur Kim Jong-hoon, who is heading Alcatel Lucent Bell Labs, has been nominated as the Minister of Creative Science for Future. The Ministry of Creative Science for Future is scheduled to cover the future development of scientific and information communications technologies down the road. Its nominee Kim, a son of an immigrant to the United States, had established a venture firm named Yurie Systems back in 1992 and developed

the military communications equipment of ATM six years later before selling his company to Lucent Technologies at US\$1 billion in the same year.

Korean Association of North Korean Studies chairman Ryu Kil-jae was named as the Minister of Unification. Ryu, a North Korea specialist, has been engaged in the research field for close to three decades.

World's 2nd Most Innovative Nation

Bloomberg Called South Korea Such

Bloomberg reported on February 4 (local time) that its global innovation index shows South Korea is the world's second most innovative nation, up one step from last year, following the US.

Bloomberg's innovation quotient ranked about 200 countries on differently-weighted seven factors; R&D as a percentage of GDP, productivity, high tech density, researcher concentration, technology-intensive manufacturing capability, tertiary efficiency, and patent activity.

South Korea stands high in most factors. It is ranked first in patent activity, third in technology-intensive manufacturing capability, third in high tech density, fourth in tertiary efficiency, fifth in R&D intensity, and eighth in researcher concentration. But its productivity is relatively poor, ranked 32nd.

The US is ranked first this year, up six steps from last year. Its high tech density is the best among all nations. And its R&D intensity, patent activity,

productivity and researcher concentration are all on the top-10 list. But its tertiary efficiency and technology-intensive manufacturing capability are ranked 26th and 52nd, respectively.

Germany is ranked third. Last year's number one Finland is down to the fourth, followed by Sweden and Japan. China is just on the 29th place.


Office Rents in Seoul

Ranked 34th Highest in the World

Office rents in central Seoul are at the world's 34th most expensive level.

According to the report on the world's major office markets for the year of 2012 released by a global real estate consulting firm Cushman & Wakefield (C&W) on February 19, office rents in central Seoul were a monthly average of 30,589 won per square meter in 2012, a 2% rise from a year ago, recording the 34th among the world's major cities.

The report shows that London's West End was the world's most expensive area in terms of office lease cost (212,927 won per square meter) last year. Hong Kong was ranked second, being nudged out of the two-consecutive-year top place. Brazil's Rio de Janeiro was the number three, showing a whopping 43% increase in office rents year-on-year. The general atmosphere was inactive in 2012 due to the global economic slowdown. Nevertheless, the average global office rents rose 3% from 2011 thanks to the regional economic growth in Latin America.

In the meantime, regional office rents in Asia were up 3% in 2012. India's New Delhi showed an increase of 25% on a year-on-year basis and its ranking was one step up to the fourth. On the other hand, Tokyo was two steps down to the fifth due to the bad economic condition, and Beijing one step down to the seventh due to the oversupply. Among the Southeast Asian cities, Indonesia's Jakarta saw the highest increase of 46% in office rents. 



Conducting Third Nuclear Test

China's hard-line stance against North Korea is weakening

North Korea's Korean Central Television (KCTV) officially announced that the country succeeded completed its third nuclear test on February 12 at an underground test site located in the north of the country.

"The test was completely safe and perfect, even though the explosive power of the atomic bomb, reduced in weight and size, was much larger than in previous experiments," it announced, adding, "The test has had no negative impact on surrounding natural environment."

According to the Korea Earthquake Research Center of the Korea Institute of Geoscience and Mineral Resources, an artificial earthquake occurred at 11:57:51 am in Kilju County, North Hamgyung Province, at a magnitude of 4.9 on the Richter scale. It is equivalent to the explosive power of approximately seven kilotons, or 7,000 tons of TNT.

The research center remarked that the test site was assumed to be in the vicinity of Punggye-ri, where the second nuclear test was conducted. During the first and second tests, the magnitude of the artificial seismic waves had been 3.9 and 4.4, respectively. Given that the force of a blast doubles when the magnitude increases by 0.2, the third test is presumed to have been four times stronger than the previous one in terms of explosive force.

Sanctions Expanded to Cover Private Enterprises

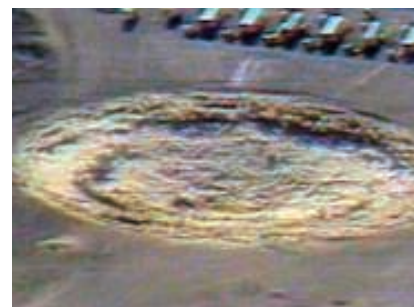
The South Korean government decided to step up its military response to the North's recent nuclear test, deploying cruise missiles that can hit anywhere in the North. The United Nations Secu-



rity Council, on its part, is to expand international financial sanctions on North Korea, from entities involved in the development of weapons of mass destruction (WMD) to private enterprises, in an attempt to cut the flow of funds.

"North Korea's nuclear test at this time is a serious threat and we've deployed our Korean developed cruise missiles, which are capable of hitting anywhere in North Korea with the world's highest degree of precision and destructive power to respond to the threat," said Ministry of National Defense spokesperson Kim Min-seok at a regular briefing on February 13.

At the same time, military authorities are planning to complete the establishment of a missile defense system known as 'Kill Chain' earlier than scheduled in order to better respond to the nuclear threat. The Kill Chain system, which was previously planned to be put into



operation in 2015, detects enemy missiles in real time and discerns the type and location of them so as to launch a strike when necessary.

At a United Nations Security Council meeting held on the same day, members agreed to expand financial sanctions to cover private enterprises and initiate a naval blockade in accordance with Articles 7 and 42 of the Charter of the United Nations.

"The UN's resolutions have been applied only to those North Korean



companies involved in the development of nuclear weapon and missile development, but we, as its chair country, will expand sanctions against the North to private entities,” said a senior official of the government.

The European Union agreed on comprehensive sanctions against the North’s nuclear test the same day. Participants in an EU foreign ministers meeting held in Brussels came to an agreement regarding financial and trade sanctions, asset freeze, and travel restriction measures, etc.

China’s Stance

However, China reconfirmed its stance that the United Nations Security Council’s additional sanctions on North Korea should not compromise peace and stability in the Korean peninsula. With Chinese news channels insisting on an appropriate level of sanctions, instead of the tight restrictions called for by countries including the United States

and South Korea, experts are predicting that China will take sides with the North once again during discussions regarding sanctions.

Hong Lei, spokesperson of the Ministry of Foreign Affairs of the People’s Republic of China, said on February 18 that discussions at the United Nations Security Council have to be helpful for the peace, stability and denuclearization of the Korean peninsula and non-proliferation in general. “The Chinese government has already clarified its stern stance with regard to the recent nuclear test conducted by North Korea,” he said at the regular ministry briefing that day, the first briefing since the test.

“We’re communicating closely with other nations regarding how to respond to the situation, and agree with the principle that the international response should be cool-headed so as not to worsen the situation further in view of the complexity of the circumstances,” he said, adding, “There are some media reports claiming that North Korea will carry out a couple of additional nuclear tests within this year or launch additional long-range missiles, but we don’t know where such reports have come from.”

The spokesperson’s remarks are considered strong opposition to hard-liners demanding North Korea policy change. These days, some Chinese media channels are claiming that the Chinese gov-


ernment should review its policy, with the North having infringed on its key interests.

However, the Xinhua News Agency came up with a different opinion on February 16, reporting, “Military force and sanctions cannot make North Korea surrender, and the root cause of the nuclear issue lies in the security threats the United States is imposing on North Korea.” The Global Times echoed this two days later, publishing an article titled “China Has to Maintain an Appropriate Level in Taking Part in e Sanctions on North Korea.” The gist of the article was that the restrictions should not be as strong as what is demanded by the United States and South Korea.

Military Authorities Not Considering Deployment of Tactical Nuclear Weapons

In the meantime, the Ministry of National Defense said on February 15 that it is not mulling over introducing a tactical nuclear weapon from the United States as of now because the most important consideration for now is to lead North Korea into nuclear disarmament.

“Our policy stance has not changed at all and we’re still adhering to the declaration of denuclearization,” said its spokesperson Kim Min-seok at a press briefing held that day with regards to some politicians’ claims that South Korea go nuclear to respond to the North’s recent third nuclear test. He added, “We’re currently taking into consideration different response systems against the possibility of the North indeed going nuclear, trying to establish the KAMD (Korea Air and Missile Defense) system as early as possible.”

He added, “At the same time, the South Korean government is keeping a close eye on North Korea’s long-range missile launch sites and mobile launch pads, including Musudan-ri, regarding media reports that preparations are being made for additional nuclear weapon tests.” 

Gaeseong Industrial Complex Nothing to Do with Sanctions on North Korea



Minister of Unification Ryu Woo-ik clarified that the South Korean government would not use the Gaeseong Industrial Complex for the purpose of putting pressure on North Korea. Experts are saying that the statement is to guarantee a continuous operation of the industrial complex given that it has been influenced greatly by political situations.

“The government is not looking to using the Gaeseong Industrial Complex for restriction purposes,” said the minister at the general meeting of the Foreign Affairs, Trade and Unification Committee of the National Assembly held in the morning of February 13. He added, “The industrial complex is an important policy asset for inter-Korean relations and we have no plan to hinder the production activities. The South Korean government’s policy stance has not changed at all that it should have some flexibility in terms of non-political and non-military cooperation between the two Koreas. Though it’s true that there should be some adjustment depending on future situations, we still don’t think that humanitarian assistance can be used for sanctions.”

Under the circumstances, the number of South Koreans staying in the complex is expected to change little. “As of 8:00 am, February 13, a total of 163 South Koreans are staying there and 1,000 or so more are scheduled to head toward the complex today,” he continued, “After

today, the number will be approximately 851.” At present, no South Koreans are staying in North Korea except for the industrial complex.

In the meantime, he predicted that the international society would strengthen its sanctions on the North since the country is in clear violation of United Nations Security Council resolutions and the demand of the international community. The UN Security Council condemned North Korea at an emergency meeting on February 12 (local time) for its recent nuclear weapon test. South Korea, the United States and Japan are expected to put more pressure on it down the road with tighter financial and shipping restrictions, too.

Minister Ryu also said that the government is providing against any additional provocative activities of the North. “Although no signs are in sight yet, we’re not ruling out the possibility,” he remarked.

South Korea’s Nuclear Armament 64% of South Koreans in Favor

It has been found that over 60% of South Koreans are in favor of nuclear armament against the North.

Gallup Korea conducted a public survey between February 13 and 15 regarding how threatening North Korea’s recent nuclear test is for the peace in the Korean peninsula. A total of 1,006 persons, all of them being aged 19 or over, participated in the survey and 51% and 26% of the respondents answered that it is very and slightly threatening, respectively. Meanwhile, 18% of the surveyees said it is not that menacing and 3% not dangerous at all. 2% declined to answer the question.


The number of the respondents worried about the situation was larger than that of those who were not across all age groups. In particular, 82% of those in their 20s and 81% in their 60s answered that the test poses threats while 68% in their 40s gave the same answer. 82% of those who support the ruling New Fron-

46% of the people contended that the government stop all aids to North Korea if it does not renounce its nuclear development program

tier Party expressed concerns and the percentage was 73% for the supporters of the opposition Democratic United Party and independent voters.

Also, 64% of the respondents were in favor of South Korea’s nuclear armament whereas only 28% were against it. The ratio was about 50:50 among those in their 20s and 74% of the ruling party supporters were for nuclear armament. The higher the age, the larger the number of assenters was.

In the meantime, 46% of the people contended that the government stop all aids to North Korea if it does not renounce its nuclear development program while 47% of the respondents said that humanitarian aids should continue even in that case. 7% give no answer. 57% of those in their 60s or older took a firm stand against the aid but 56% and 62% in their 30s and 40s were in favor of the humanitarian aids.

When it comes to the most appropriate timing of the reunification of the two Koreas, 61% suggested 10 years later from now after a gradual progress, 20% were against the reunification and 16% gave the answer that it should be achieved as early as possible. 



Korean Four-Rivers Restoration Initiative

Will It Lead to a Jackpot Abroad?



The Ministry of Land, Transport and Maritime Affairs (MLTM) announced on February 5 that Korea Water Resources Corporation (K-Water) has been selected as one of six final bidders for the 12-trillion won scale water management project by the Water and Flood Management Commission of Thailand.

Among the shortlisted, including ITD Power China (a consortium of Thai and Chinese companies) and Thai-Japan Joint Venture (a consortium of Thai and Japanese companies), there are only two bidders that have been selected for all of ten contract sectors; K-Water and ITD Power China. The other four will enter the final round of bidding for one to six sectors. So, it appears that K-Water stands at a relatively favorable place.

Thailand's water management project has been pushed forward as a core state-initiated infrastructure business since the nation was hit by a huge flood in 2011. There has been no such a mega-scale water management project in the world. It is also interpreted as a chance of gaining a foothold in the Southeast Asian region. Thus, many civil engineering powers have been fiercely competing.

To win the bids, Chinese Premier Wen Jiabao and Japanese Prime Minister Shinzo Abe have been to Thailand. Korean President Lee Myung-bak also visited the nation in November last year, and asked Prime Minister Yingluck Shinawatra for support.

Korea-Columbia FTA

To Be Signed on Feb 21

The Korean government is expected to officially sign the Free Trade Agreement (FTA) with Columbia, the fourth largest Latin American economy, on February 21.

The bilateral trade bureau at the Ministry of Foreign Affairs and Trade (MOFAT) said on February 18, "The successful negotiation of the Korea-Columbia FTA was declared at the summit meeting in June last year, and then we went through translation, proofreading, legal review and the Cabinet approval."

Park Tae-ho, the Minister for Trade at the MOFAT, and Sergio Diaz-Granados, the Minister of Commerce, Industry and Tourism of Columbia(photo), will sign the FTA on behalf of each government in the signing ceremony.

According to the FTA, within ten years of its implementation, tariffs on 96.1% of Colombian and 96.7% on Korean goods will be removed. A total of 151 agricultural items including rice, peppers, onions and ginseng are excluded from the concession.

After the signing ceremony, the Korean government will submit the FTA to the National Assembly for ratification and take necessary domestic steps in order to let the agreement go into effect as early as possible.



Nuclear Treaty Review


Some Conflict Expected between Korea and US

It has been pointed out that the United States government and the new South Korean government could disagree on North Korea policy, nuclear treaty review and defense burden sharing during the early days of the latter.

The Congressional Research Service of the United States remarked in its report published earlier this month that the ROK-US alliance was closer than ever between 2009 and 2012, mentioning tight bilateral cooperation for North Korea policy coordination, the implementation of the KORUS FTA, etc. "However, it remains to be seen whether the amicable relationship will continue even after the inauguration of the new Korean president scheduled for late this month," it said.

It added that the key is what approach the new government in Korea will take with regard to nonproliferation and human rights issues, two of the top pri-

ority agenda items of the US, and how much support the Obama administration and the US Congress will give to the incoming president's will to improve the inter-Korean relations.

"When it comes to revision to the Korea-US Nuclear Agreement, both parties have remained locked in stalemate for months as of late as the Korean government's demand for spent nuclear fuel reprocessing signifies a challenge to the United States' nonproliferation policy," it continued, "The issue has become a very sensitive one among Korean government officials and politicians because they are regarding it as a matter of sovereignty." 



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돌발상황 발생시 평소보다 정지시간이 1.47초 늦어져 고속도로에서는 큰 사고로 이어질 수 있습니다.
운전 중 DMB나 휴대전화를 사용하지 말아주세요



졸음운전하지 마세요

최근 5년간 고속도로 교통사고의 약 22%가 졸음운전으로 인한 것입니다.
휴게소와 졸음쉼터를 이용해 충분한 휴식을 취해주세요



과속운전하지 마세요

과속운전은 운전자의 시야를 좁히고 위기대응능력을 떨어뜨려 대형사고를 유발합니다. 자신과 가족의 안전을 위해 속도를 조금 더 낮춰 주세요.



과적 및 적재불량하지 마세요

축하중 10톤의 과적차량 한 대는 승용차 7만대 만큼의 도로파손 피해를 초래하고, 적재불량으로 무심코 떨어뜨린 물건하나가 타인의 생명과 안전을 위협합니다.



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Economic Growth Rate

Forecasts Revised Downward

The IMF has adjusted its economic growth forecast for Korea from 3.6% to 3.2% for this year.

The organization provided G20 member nations with a revised growth forecast report before the G20 Financial Ministers and Central Bank Governors Meeting held recently in Moscow, Russia. According to the report, Korea is expected to record economic growth rates of 3.2% and 3.9% in 2013 and 2014, respectively. The estimate for this year has been cut by 0.4 percentage points compared to the World Economic Outlook Report published in October 2012. The global economic growth rate for this year, in the meantime, has not changed during the same period.

Experts are claiming that the downward revision has already been predicted in that a number of other organizations both at home and abroad have lowered their estimates one after another. The Korea Development Institute, for example, cut its rate from 3.4% to 3.0% in November last year to voice the need for a revised supplementary budget. The Ministry of Strategy and Finance lowered its estimate by one percentage point to 3.0% the following month. The Bank of Korea came up with an estimate



of 2.8% in January this year, 0.4 percentage points down from its previous announcement back in October 2012.

Economic research institutes in the private sector are being even more conservative. Foreign investment banks lowered the average of their economic growth rate forecasts for Korea down to below 3%. According to the Korea Center for International Finance, 10 foreign investment banks' forecasts stood at an average 2.9% as of the end of last month. Nomura and Deutsche Bank suggested a rate of 2.5% each, while Bank of America and JP Morgan predicted 2.6% and 2.8%, respectively.

The average figure had amounted to 4.3% as recently as early last year. However, it dipped below 4% in June and 3% last month. Only 4 out of the 10 banks estimated Korea's GDP growth rate for this year at 3% or higher, including Morgan Stanley at 3.7% and Barclays at 3.3%.

The Bank of Korea is forecasting that the growth rate will be at 2.8%, while the government and the OECD are estimating 3.0% and 3.1% each. The figures

given by the LG Economic Research Institute, Hyundai Research Institute and Korea Institute of Finance are 3.4%, 3.1% and 2.8%, respectively.

However, the international credit rating agency Standard & Poor's predicted that Korea, managing its risks well nowadays, will be able to continue its economic growth for the time being.

"Korea's pace of economic growth slowed down in the wake of the global financial crisis, but it has succeeded in achieving a turnaround to get on a recovery track," said S&P senior economist Paul Sheard on February 8 (local time) at the special lecture session held by the Korea Chamber of Commerce & Industry at Teaneck Marriott at Glenpointe. He added, "At the same time, Korea's exports to China are on the rise with the Chinese market showing consistent growth."

With regard to Japanese Prime Minister Shinzo Abe's economic policy, characterized by currency devaluation, he commented that the chance of success is slim at best although market participants are welcoming it for now. **BR**



Foreign Exchange Rates

Policy Measures for Currency Rate Protection?

“President-elect Park Geun-hye has frequently mentioned price stabilization in the interest of people’s livelihoods, causing many in the foreign exchange market to forecast a drop in the won-dollar rate, but I guess that the market will be seeking its direction anew from today on,” said Korea Exchange Bank manager Lee Kun-hee on February 20. The remark reflects how foreign exchange market participants think about the incoming president’s suggestion of a preemptive response for exchange rate stabilization.

They are considering the president-elect’s remarks as preparation against a drop in the exchange rate. Furthermore, they are expecting foreign exchange speculators will lose ground down the road, with the next president herself having given a verbal warning, a move quite unprecedented. “It seems that she, by saying so, expressed her will to forestall foreign exchange speculation taking advantage of the government change and administrative vacuum,” said an industry insider.

Under these circumstances, many people are paying keen attention to whether and when the foreign exchange authorities will exert their influence. At present, there are three cues to predict the intensity of her future policy for foreign exchange stabilization: the fact that she mentioned the current weak yen trend (with regard to policy direction); her promise to keep companies from any loss caused by foreign exchange fluctuation (foreign exchange level); and her commitment to preemptive action (speed of policy implementation).

Experts are saying that her mentioning of the weak yen could lead to some

measures to protect the value of the local currency. According to them, there is some possibility that the Korean government will take self-defensive action even without international cooperation if the weak yen trend continues under a tacit agreement among major economies.

Specifically, tax, monetary and supervisory policies are mentioned as tools to serve the purpose. Punitive taxes could be imposed on speculative transactions, while the base interest rate cut to prevent an inflow of hot money and strengthen the soundness of foreign exchange transactions on the part of financial companies.

The effect of the policy mix differs depending on how to combine these three measures. The market consensus is that tightened financial supervision will be followed by stricter tax policy and monetary response. When it comes to closer supervision, three regulatory mechanisms are on hand, that is, forward position limitation, charges allot-

ted for foreign exchange soundness and taxation on foreigners’ bond investment. The government can put into force some of them through legal amendments without having to go through the National Assembly.

Concerning the stricter tax policy, selective taxation on speculative foreign exchange and bond trading is under consideration. Recently, Korea Institute of Public Finance president Jo Won-dong, who introduced the topic for the first time, was appointed Senior Secretary to the President for Economic Policy, making the implementation of the policy more likely. However, this will have to go through legislative procedure.

The monetary policy, including interest rate cut, can be initiated immediately, but the government is considering it as a last resort because it could backfire without international cooperation. If the government indeed came to a situation in which monetary policy should be used, this could result in a currency war against the weak yen. **BK**



Foreign Exchange Reserves

Recording New Highs Keeping Low Short-term Debt Ratio



Korea's foreign exchange reserves hit a new record high for the six consecutive month.

According to the current status of foreign exchange reserves released by the Bank of Korea (BOK) on February 5, the nation's foreign reserves as of end-January stood at US\$328.91 billion, up US\$1.94 billion from a month earlier.

The numbers have been breaking records for six months in a row starting last August.

One BOK official said, "The rise in foreign exchange reserves last month was attributable to a stronger euro, which led to an increase in the amount converted to the U.S. dollar as well as margins earned from operation of foreign currency assets.

By asset type, deposits stood at US\$22.8 billion, up US\$5.76 billion from a month earlier. In contrast, securities declined US\$3.79 billion to US\$296.07 billion. The special drawing rights (SDR) issued by the International Monetary Fund (IMF) and IMF

positions (the right to draw out convertible currency held by IMF members through contributions payment) also fell by US\$20 million and US\$10 million, respectively, from a month earlier. Gold reserves remained unchanged from the previous month, at US\$3.76 billion.

Korea ranks 7th in terms of foreign exchange reserves: China topped the list with US\$3.3116 trillion, followed by Japan (US\$1.2681 trillion), Russia (US\$537.6 billion), Switzerland (US\$531.2 billion), Taiwan (US\$403.2 billion) and Brazil (US\$373.1 billion).

Meanwhile, Korea's financial soundness has improved significantly with the ratio of short-term debts to the total external liabilities hitting a 13-year low. Also, it has been found that the country's amount of accounts receivable is larger than that of accounts payable.


According to the Bank of Korea's interim international investment position data published on February 20, Korea's foreign credit and liabilities have increased by US\$39.2 billion and

US\$14.7 billion to US\$535.9 billion and US\$413.4 billion, respectively. This is the first time that the amounts exceeded US\$500 billion and US\$400 billion each. The increase is because the reserve assets of the monetary authorities have risen by US\$20.6 billion.

The growth was more conspicuous in short-term than long-term debts, US\$27.9 billion vs. US\$11.3 billion. The short-term debts have decreased to US\$126.7 billion as deposit takers' repayment of short-term borrowings increased to US\$10.7 billion. The ratio of short-term debts has decreased from 34.5% to 30.6% since 2011 to come close to the level of 1999 at 29.7%.

The long-term foreign debts have surged by US\$25.4 billion with the demand for Korea's treasury and currency control bonds going up in the wake of the credit rating upgrade and more foreign bonds being issued by private-sector companies.

Under the circumstances, Korea's net foreign liabilities have increased US\$24.5 billion to add up to US\$122.5 billion, which is the highest since the US\$155.7 billion recorded in 2006. It means that its foreign credit is US\$122.5 billion larger than the amount of foreign debts.

As of the end of 2012, the country's overseas investment balance increased US\$88.3 billion year on year to US\$842 billion. During the same period, the balance of foreign investment grew US\$106.8 billion to US\$945 billion, driven more by non-transaction factors (US\$75 billion) such as stock price increase and the appreciation of the won than by transaction-related factors (US\$31.8 billion). 

Inflation Rate

Limited to 1.5% in January

Statistics Korea announced on February 1 that the consumer price index increased 1.5% from a year earlier in January, 0.2 and 0.6 percentage point lower than that in the United States and Germany for December last year. The rate of inflation remained below 2% for three consecutive years.

Under the circumstances, some experts are mentioning the possibility of deflation with the economic recession lingering. This is the first time that the percentage remained below the 2% mark for three months in a row since the period from January 1999 and February 2000.

Still, Ministry of Strategy and Finance director Kim Jung-kwan said that the possibility is very low because the aggregate demand is above a certain level.

Key Interest Rates

Frozen by Bank of Korea

The Bank of Korea froze the key rate. Its governor Kim Choong-soo gave an optimistic view again, remarking that the current domestic economic recession was unlikely to further worsen.

Experts are saying that the possibility of a base rate reduction is rather low with the central bank poised to take its own way in spite of Japan's recent quantitative easing. However, many people are expressing their concern over the decision in that national economic conditions are still far from certain and major advanced economies are resorting to monetary easing at the same time.

The Bank of Korea held a Monetary Policy Committee meeting on February 14 and determined to maintain the base rate at 2.75% for the fourth consecutive month. It had lowered the base rate by 0.25 percentage points in July and October, respectively. "The domestic economy is making a recovery, though gradually," said the governor, adding, "Monetary easing is already going on and it's not that we start it by lowering




the key rate from the current level."

The Bank of Korea's decision is based on its view that the national economy is improving. For example, Korea's monthly exports increased 11.8% from a year earlier thanks to increased shipments to China and Southeast Asia.

"It is true that advanced economies' quantitative easing these days is disturbing global markets while driving up the international raw material prices but, at the same time, it has the positive impact of boosting international trade to accel-

erate the recovery of the global economy and therefore we need to weigh the advantages against disadvantages," he continued, adding, "Although Korea isn't free from geopolitical risks and is highly dependent on export, meaning the current trend does more harm than good to it, the relation between the interest rate the foreign exchange rate is less close in Korea." By saying so, he implied that he was negative about adjusting the key rate for foreign exchange reasons.

Nonetheless, not all of the committee members gave their consent to the decision for two consecutive monthly meetings. Under the circumstances, some market participants are expecting that the rate would be decreased after the inauguration of the new government. With regard to this point, the central bank governor commented, "What I meant by fiscal and monetary policy coordination is that it's desirable for the two to take the same direction, not that the Bank of Korea is going to hold off making the decision to time it with the launch of the new government." 

Consumer Confidence

Climbing amid Sluggish Consumption in January

Consumers are feeling slightly more optimistic about the economy In January. The latest survey by the Bank of Korea showed that the Consumer Survey Index, which measures how consumers see the economy's outlook, logged 102 in January, up from 99 in December last year.

A figure above 100 indicates that optimists outnumber pessimists. The central bank said positive outlooks for the U.S. and Chinese economies, as well as for the domestic economy, have boosted confidence.

Officials added that the figure also reflects consumers' hopes for the incoming Park Geun-hye administration.

Sales at supermarkets plunged 24.3 percent in January compared to the same month last year, the biggest drop ever since statistics began in 2005, the Ministry of Strategy and Finance said. Sales at department stores also fell 8.4 percent.

Sales of domestically-manufactured passenger cars rose only 1.6 percent last month, compared to 7.5 percent in December.

The ministry attributed the poor figures to the fact that the lunar New Year fell in January last year but in February this year, shifting the benefits of the traditional spending spree to the following month.

Sluggish car sales were due to the termination at the end of last year of discounts on individual consumption taxes.

Net Purchase of Bonds Increasing

Foreign investors buy bonds, leaving institutional investors high and dry

Domestic institutional investors have increased the lending of bonds as of late on the assumption of some bond rate increase, yet their foreign counterparts are pulling down the interest rate through spot purchase.

According to the Korea Financial Investment Association, the balance of lending has increased by close to four trillion won in just 10 days since January 28, to total 24.0385 billion won on February 12. The balance had reached 26 trillion won back in November last year but declined to approximately 19 trillion won earlier this year.

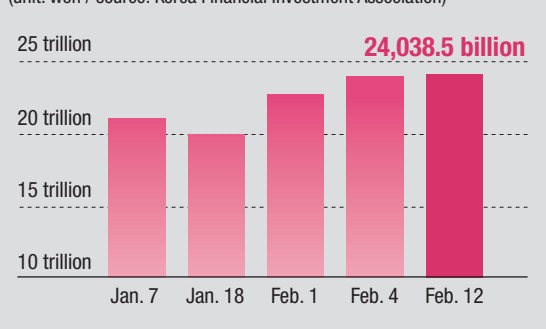
Bond lending is used to sell bonds after borrowing them and buy treasury bond futures at the same time. Domestic investors account for most of such transactions. Foreign investors, in fact, made no bond lending transactions at all during the past one month. 91.81% of borrowers are securities firms, 5.77% are banks and 1.68% others as of now.

Domestic institutional investors recently bet on an interest rate rise and increased the balance as expectations for a base rate decrease weakened. Though the key interest rate was expected to be lowered during the first quarter of this year until as recently as early last month, it is now forecast to be frozen, with the US Treasury bond rate rising along with the won-dollar exchange rate.

The problem is that the bond rate is falling this month. That of the 10-year benchmark treasury bond rose from 2.99% to 3.12% last month, but has fallen to 3.04% as of February 12.

Bond Lending Transaction Balance (lump sum balance)

(unit: won / source: Korea Financial Investment Association)



The movement has been led by foreign investors. They recorded a net buying of bonds worth 617.1 billion and 654.6 billion won on the first and fourth day of this month, respectively. Total net purchases amounted to 2,882.1 billion won this month alone.

“Last week, foreign investors increased purchases in the spot and futures market to cause some drop in interest rate,” said Kim Sang-hoon, a Hana Daetoo Securities research analyst, adding, “It seems that they consider Korea as the major victim of the weak-yen policy.”

Under such circumstances, market participants are paying attention to the Monetary Policy Committee meeting scheduled for February 14. If the base rate is adjusted downward, domestic institutional investors cannot avoid losses. Even if the rate is frozen, losses are inevitable if foreign investors continue such net purchasing.

Korean banks are also purchasing three-year treasury bond futures in quantity. The banking sector and foreign investors bought a large volume of

three-year treasury bond futures on expectations there will be a base rate cut next month, and thus driving up the open interest to over 300,000 contracts for the first time ever.

According to the Korea Exchange, the number of outstanding contracts increased 6,000 from a day ago to 302,876 to reach a new high. Compared to the end of last year, when the figure was 220,254, the amount increased approximately 37%.

The rapid increase implies that more and more investors are opting for long-term investment, predicting the movement of the index in view of actual demand, while refraining from short-term trading.

The increase can be attributed to a higher-than-expected ratio of foreign investors. In the three-year bond futures market, the ratio of foreign investors rose from 12.9% to 19.6% between October last year and this year. The derivative product for interest rate risk management has a face amount of 0.1 billion won and an annual coupon rate of 5%. The interest is paid every six months.

“With the key rate having been frozen this month, an increasing number of investors are anticipating a base rate cut in March to raise the number of outstanding contracts to over 300,000 for the first time in history,” said Hwang Sun-koo, who is heading the Financial Derivatives Management Team of the Korea Exchange. He continued, “This means that more and more foreign investors are turning toward long-term investment in treasury bond futures.” **OK**

Issuance of Bonds

Korean Corporations Increasing Bond Issuances Overseas

With the strong won trend continuing, Korean companies have been issuing bonds abroad one after another from the outset of this year. The average interest rate is lower than before, making the bonds more attractive.

This upward trend can be attributed to the increasing corporate bond demand in the United States and Japan in the wake of their quantitative easing, as well as yen carry trade. Under such circumstances, companies are hedging their currency risks by means of CRS, or cross-currency interest rate swap, to avoid foreign exchange losses in two to three years, when the bonds come to maturity.

According to industry sources, no less than eight companies issued bonds abroad in January -- KT, Korea Gas Corporation, Korea Southern Power, Shinhan Bank, Woori Bank, Hana Bank, Korea Development Bank and Kookmin Bank. Their bonds are enjoying tremendous popularity in various countries, including the United States, Switzerland, and Japan.

For example, even the long-term corporate bonds of Korean companies are finding their way into the Japanese market. KT and Woori Bank succeeded in issuing three- and five-year Samurai bonds in Japan, where most of the bonds had been two-year or shorter-maturity ones. "It is quite unprecedented that bonds with a maturity of three years or longer are issued successfully in Japan," said a stock market insider, adding, "It seems that the recent quantitative easing has led to a weak yen and super-low interest rate, increasing Japanese companies' demand for foreign corporate bonds."

On January 23, KT issued two-year



Samurai bonds worth five billion yen, three-year ones worth 18.2 billion yen and five-year ones worth 6.8 billion. It first suggested Yen Libor + 28bp to 38bp for the two-year ones, Yen Libor + 40bp to 50bp for three-year and Yen Libor + 50bp to 60bp for five-year, but the final coupon rates were determined at Yen Libor + 31bp, 43bp and 53bp for high demand, respectively. The total investment is said to have reached approximately 30 billion yen for three-year bonds.

In the meantime, Woori Bank issued 30 billion yen of Samurai bonds on January 30. The spread for the two- and three-years ones was 50bp and 60bp, respectively, approximately half when compared to the previous year.

Korean companies are issuing more and more international bonds since they can do so at a lower interest rate than in Korea. The interest rate is lower in the United States, Europe and Japan than in Korea these days. The countries' quantitative easing programs have resulted in abundant liquidity, i.e. carry trade funds,

making more room for investment.

Furthermore, the coupon rates of the bonds issued by Korean companies are below the lowest record of 2008 to maintain demand. The three- and five-year global bonds issued on January 15 by the Korea Development Bank, worth US\$500 million each, set a new low record. The coupon rate was 80bp and 97.5bp higher than that of the three-year US Treasury bonds, respectively.

The popularity of their foreign currency-denominated corporate bonds is on the rise owing to a surge in dollar-denominated bonds issued by their counterparts in India, Thailand and so forth, whose credit ratings are relatively low. According to Bloomberg, dollar-denominated bond issue amounted to US\$23.4 billion last month in Asia excluding Japan. "With Indian and Thai companies issuing more such bonds, the scarcity value of those issued by Korean corporations with higher credit ratings is going up," said Chae Ho-byung, who is heading the bond sales team of Shinhan Investment & Securities. **OK**

KB Kookmin Bank

Rolling up Sleeves to Help Society's Less Fortunate

KB Kookmin Bank (governor Min Byung-duk) is cementing its status as a financial institution serving the needs of the low-income working class by releasing a variety of products for their benefit and opening support centers.

For example, it opened 33 grievance centers in major regions in February, allowing those who lack information or knowledge about financial products and those suffering from high interest rates or debt, to get practical help and assistance. The KB Kookmin Bank People's Finance Clinic, which was opened on the same day, provides helpful services and information to customers finding it difficult to visit a business office in person.

Various Loan Programs for Higher Living Standards

The bank unveiled its KB Saeheemang Holssi Loan back in November 2010, which is a credit loan product with a 10% interest rate for financially marginalized low-income earners and small-scale businessmen aged 20 or older. The product is characterized by its interest rate being cut gradually, to the level applied to the bank's A-class customers, for those who do not fall behind the repayment schedule.

In July 2012, it launched the KB Happiness Dream Loan II to provide livelihood grants to those with low credit ratings and income. It is available for anyone between Level 6 and 9 in the CSS, or Credit Scoring System, and whose annual income is less than 30 million won. Furthermore, it has oper-



Min Byong-deok, President and CEO of KB

ated the KB Change Dream Loan since July 2011, with which loan takers can replace their high-interest private loans with low-interest ones provided by the banking sector through the Credit Restoration Fund's credit guarantee.

At the same time, it is offering different financial tools for the benefit of ordinary people, including the KB College Student Loan and the KB Transfer Loan for Youth. The former is for students who cannot take out the Korea Scholarship Foundation's student loan or who are using a high-interest loan in the non-banking sector. The latter program let young people switch their loans into a lower interest rate by means of the credit guarantee provided by the Credit Counseling and Recovery Service.


Pre-workout Programs for Soft Landing of Household Debt

In an attempt to better deal with the household debt problem, the company is running its own pre-workout programs, such as long-term loan amortization and household debt restructuring. The former allows credit loans that are likely

to be delinquent and household credit loans that are overdue for less than 90 days to be repaid by installment over a long period of time. The latter, introduced for the first time in 2004, is to convert the overdue balance of credit or mortgage loans into long-term amortization loans.

Its debt restructuring program for credit loan takers is also proving very popular. Level payment of up to 10 years is allowed for loans in arrears for at least three months, and the loans owned by those subject to credit management. A similar program for mortgage loan holders, in the meantime, is applied to the monthly payment overdue for at least one month at a fixed interest rate of 9.0%.

Up to now, KB Saeheemang Holssi Loan's and KB Change Dream Loan's sales have reached 376.9 billion won and 213.1 billion won, respectively, while the long-term loan amortization, debt restructuring and micro-credit divisions have recorded sales of 235.6 billion, 303.8 billion and 50.9 billion won, respectively. Not only are the figures second to no other financial institution in Korea, but industry participants have praised the bank's efforts for financial education and consulting for the general public, job creation for youth, etc.

KB Kookmin Bank is planning to continue working together with different associations and organizations to lend a helping hand to the most vulnerable class of society and help young, start-up entrepreneurs accumulate experience and build up financial strength. 

Currency Transaction Tax To Be Imposed on Foreign Funds

The Korean government introduces a currency transaction tax on foreign funds for the stabilization of the foreign exchange market. The idea is to prevent foreign exchange fluctuation caused by advanced economies' quantitative easing and to better manage capital flows.

Assistant Minister for International Affairs Choi Jong-koo of the Ministry of Strategy and Finance announced that the ministry brings in a bond transaction tax to that end. Although it is somewhat different from Tobin's Tax for uniform taxation on all short-term speculative funds, the ministry is going to come up with a type of currency transaction tax allowing for domestic market conditions.

"The bond transaction tax might have some problems concerning market contraction and effectiveness, but it's necessary to have some related discussions while monitoring the recent introduction of a bond transaction tax by the European Union," he said, continuing, "Given that the speculative demand takes the form of forward trading in most cases, we'll also decrease the room for banks' forward trading to forestall speculative trading in the non-deliverable forward (NDF) market."

At the same time, the government is planning to make it compulsory to use the Central Counter Party (CCP) in



Choi Jong-koo, the Assistant
Minister for International Affairs

Open-Ended Fund Supermarket FSC to Introduce Soon

The Financial Services Commission (FSC) announced on January 31 that it would foster fair competition among fund sellers by establishing an open-ended fund supermarket.

The FSC head Choo Kyung-ho said, "A lot needs to be done to enhance investor protection," adding, "We will limit the percentage of funds held by affiliates of a financial firm by diversifying the types of fund-selling companies and will make sure that open-ended fund-selling firms to sell various types of funds in an equitable manner will enter the market."

The open-ended fund sales network will likely be established through joint investment by asset management firms and securities firms, etc, and be run in a fair manner regardless of whether the funds are held by their affiliates or not.

The FSC head said, "Amid growing interest in mid-risk, mid-yield products, asset management firms' philosophy and techniques have also become important," adding, "I will lower barriers to entry for private-equity funds whose access has been limited and actively support asset management industry' push overseas."



Choo Kyung-ho,
the Vice Chairman of FSC

NDF transactions and reflect the NDF transaction volume to forward position estimation. The purpose is to secure offshore market trading information and prevent speculative investment.

Short-term Floating Funds Its Size Reached New High

It has been found that the short-term floating funds in the Korean capital market reached a new high of approximately 666 trillion won, which can be attributed mainly to the low interest rate trend, housing and stock market slowdown as of late, etc. The size is unlikely to decrease for a while with the domestic economic outlook showing no signs of recovery yet.

The Bank of Korea and the Korea Financial Investment Association announced on February 18 that the short-term floating funds added up to 666.3626 trillion won as of the end of December last year. The sum is divided roughly into: 44,173.8 billion won in

cash; 112,677 billion in demand deposits; 313,159.8 billion won in money market savings deposits; 45,763.5 billion won in money market funds; 20,337.2 billion won in certificates of deposit; 36,203.6 billion in cash management accounts; 6,928.7 billion won in repurchase agreements; 70,440 billion won in time deposits; and 17,750 billion won in stock investors' deposits. The MMF portion does not include those held by the government and non-residents.

The total quantity had skyrocketed from 540 trillion won to 647 trillion between late 2008 and late 2009. As of the end of 2010 and 2011, it totaled at 653 trillion and 650 trillion won, respectively.

It is because investors are having hard time finding investment options as the economic recession lingers on that the size of such funds is rarely decreasing. As of February 15, the average interest rate of the 38 one-year time deposit products provided by the 16 commercial banks in Korea was 3.0%. The housing market is showing no signs of revitaliza-

tion in spite of the government's different policy measures, either. The stock market is expected to be drifting sideways for the time being around 2,000 points as well due to the weak yen trend.

KB Life Insurance

Carrying Out Capital Increase

KB Life Insurance increases its capital by 200 billion won in a bid to follow the recommendation of the financial supervisory authorities and raise its risk-based capital (RBC) ratio to 200%. Experts are welcoming the decision, saying that this will trigger the recapitalization of the domestic insurance industry.

"We've decided to increase our capital by approximately 200 billion won to meet the RBC guidelines of the authorities," said a high-ranking executive of the company on February 11, adding, "Our company has a relatively high ratio of savings products and therefore we find it inevitable to carry out capital increase worth hundreds of billions of won for several years down the road."

Initially, KB Life Insurance had been planning to improve its RBC ratio without recapitalization by taking over ING Life Insurance, but the deal foundered to drive the company into paid-in capital increase.

As of the end of the second quarter of last year, the RBC ratio of KB Life Insurance stood at 161%, which is the lowest in the domestic life insurance industry. Others had much higher percentages, e.g. Prudential at 662%, Ace



Kim Yong-hwan,
the Chairman of Korea Eximbank

Eximbank

Issuing Green Bond Worth US\$500 Million

Eximbank of Korea issued a global green bond, worth US\$500 million, on February 21 for the first time worldwide as a private-sector policy finance institution.

A green bond can be defined as a special-purpose bond dedicated to supporting low-carbon and eco-friendly industries and business projects. Any institution has to obtain a green certificate from an international certification body before issuing it. The first green bond was issued by the World Bank back in 2008. Since then, mainly international organizations with the highest credit rating have issued that type of bonds to raise the total issuing amount to approximately US\$9 billion.

Eximbank, in the meantime, obtained its green certificate on February 18 from the Center for International Climate and Environmental Research of Norway. The bond has a maturity of five years and the coupon rate is 1.819%, US Treasury bond rate plus 0.95%. It is the lowest among the rates of the bonds issued by Korean institutions since the global financial crisis of 2008.

"The accomplishment at this time can be attributed to the Korean government's hosing of the secretariat of the Green Climate Fund and full-scale efforts for the promotion of low-carbon and eco-friendly industries," said Kim Yong-hwan (in the picture), governor of the bank, adding, "We'll make good use of the bond to help local firms seek new growth engines."

at 571%, MetLife at 530%, Samsung at 428%, PCA at 422%, Lina at 404%, Allianz at 345%, AIA at 335% and Shinhan at 311%.

The authorities are advising life insurance firms in Korea to keep the RBC ratio over 200% at the least so that they can maintain capital adequacy. The minimum figure has been adjusted upward recently in view of the systemic change scheduled for this year, which is expected to bring down the ratio by 50 percentage points, and the deteriorating business conditions as of late. "It is expected that a series of life insurance providers will carry out capital increase to meet the guidelines," said an industry insider.

At present, BNP Paribas Cardif Life Insurance (171%) and Hyundai Life Insurance (199%) are below the advised level while Heungkuk (211%), KDB (214%), Woori Aviva (219%) and Hana

HSBC (243%) are slightly over the minimum percentage.

Inter-company Transaction for Fund Sale

Financial Firms Found Persisting

It has been found that local financial companies are continuing with internal transaction for fund sale. Under the circumstances, the Financial Services Commission is going to implement the so-called 50% rule as soon as possible. It can be defined as a compulsory restriction to prevent excessive internal transaction.

According to industry sources, no less than eight out of the 16 financial companies with a fund amount of at least one trillion won recorded an

increase in internal transaction within the past one year. The pace of growth has not slowed down despite the financial authorities' announcement to put a brake on the practice.

It was Hanwha Investment & Securities that posted the highest rate of increase. The ratio of Hanwha Asset Management's funds in it surged from 16.9% to 36% between late 2011 and the end of November last year. The growth rate amounted to over 10% for Kookmin Bank and the Industrial Bank of Korea during the same period, too. In the banking sector, Shinhan Bank was the only one whose rate of increase dropped with respect to its subsidiary, Shinhan BNPP Asset Management.

In the meantime, the percentage dropped for most securities companies except for Mirae Asset Securities. Samsung Securities' ratio of sale of Samsung Asset Management's funds decreased

from 66.4% to 56.6% and Korea Investment & Securities' percentage declined from 50.1% to 44.2%. In the insurance sector, Samsung Life Insurance's ratio fell slightly from 74.2% to 73.8% during the period whereas Mirae Asset Life Insurance's figure increased from 87.7% to 91.8%.

Standard Card for Mobile Payment Major Local Credit Card Companies Developed the Standard

Four leading credit card companies in Korea developed a common standard for the popularization of mobile credit cards.

Shinhan Card, KB Kookmin Card, Hyundai Card and Samsung Card announced on February 21 that they finished the development of the new mobile payment platform. It is going to




be put to commercial use starting from next month, from those companies completing the preparations first.

The core of the new standard lies in an application-type mobile credit card. It means that any smart phone user can use his or her credit card on a mobile basis by just downloading the application, unlike the existing mobile credit cards that have to be downloaded onto the USIM chip. Also, the credit card number is not saved but a one-time card number is generated every time a payment is made to forestall any personal information leakage.

The new development adds to the convenience of affiliate stores, too. The application-type mobile card is available in four forms, that is, bar code, QR code, NFC and direct input, and the stores do not have to purchase a payment terminal.

In the meantime, NH Nonghyup Card and Lotte Card are also planning to join the project down the road. The six companies' goal is to work together to increase the number of the affiliate stores through service upgrade and popularize the new technology nationwide.

"It's quite unprecedented in the credit card industry, where competition is very fierce, that multiple companies are engaged in a joint project and all of the participants have exerted great efforts to come up with a satisfactory result," said an industry executive who took part in the project, adding, "We're expecting that the application-type mobile credit card will lead to the revitalization of the market, overcoming the existing mobile cards' limitations associated with high infrastructure establishment costs." 

SBI Mortgage

Starting Mortgage Banking Business in Korea

Mortgage banking market leader SBI Mortgage, which is the only Japanese company listed on the Korean stock exchange, is accelerating its efforts to enter the Korean market.

These days, the Japanese government is supplying unlimited liquidity while maintaining the key rate at zero percent in an attempt to reach a GDP of 50 trillion yen, leading many to expect a housing market recovery. The Korean government is also planning to expand the ratio of fixed-interest housing loans to 30% by 2016 for more favorable market environments.

According to industry sources, SBI Mortgage starts mortgage banking business in Korea in the second half of this year. Then, it becomes the first loan provider not taking deposits in Korea engaged in such business although some commercial banks such as KB Kookmin Bank and Citibank are currently providing conforming loans in connection with the Korea Housing-Finance Corporation. The product has the function of procuring loan funds by converting mortgage bonds into securities, unlike those dealt in by savings institutions.

FLAT35, one of the most well-known products of SBI Mortgage available in Japan, is a 35-year fixed-interest mortgage loan handled by the Japan Housing Finance Agency (JHF). When SBI Mortgage provides a loan to an individual, the mortgage bond is bought by the JHF for conversion into securities. In Korea, most long-term fixed-interest housing loans have the form of conforming loans, which are characterized by the Korea Housing-Finance Corporation securitizing the loans and banks being engaged in the sale as agents.

"For now, we're mulling over online sale to penetrate the rich market after obtaining the license," said SBI Mortgage.

KOSDAQ Market

A Place for Money Gaming?

The KOSDAQ market has been reduced to a place for money gaming for “Super individual investors (individual investors with large volumes of assets)” as individual investors with considerable financial firepower are repeatedly buying shares under the pretext of participating in management and then exiting the market after profit-taking.

According to the Financial Supervisory Service (FSS) on February 20, the KOSDAQ is increasingly turning into a playground for super individual investors who threaten management rights through the massive buying of shares.

KJ Pretech, a supplier for LG displays, is embroiled in a legal wrangle with Lee Ki-tae, former vice president of Samsung Electronics. Lee, who had bought the company's shares for mere investment purposes, shifted his focus to participation in management and increased his holdings to 17.22%. Hong Jun-ki, CEO of KJ, raised fears over the move saying, “If the company falls prey to a hostile M&A, it would lead to suspension of transactions with major customers, which represent 60 percent of sales.” Lee is reportedly considering legal action in response.

Set-top box maker Homecast is also involved in a dispute over management rights. Jang Byung-kwon, former CEO of its rival JB Amusement (formerly Hyundai Digital Tech) acquired a 20.26% stake in Homecast for participation in management. On January 9, his holdings of company shares overtook the existing largest shareholder Lee Boseon, who held a 15.24% stake. Jang also submitted a proposal to appoint a director and an auditor as part of efforts to secure management rights.

The problem is that these kinds of super individual investors are flirting with equity stakes at the expense of

innocent small investors.

Following Mr. Lee's proclamation of intention to participate in managerial affairs, shares of KJ Pretech, soared 21.19% in two days to 3,145 won from 2,595. Homecast also saw its shares skyrocket over 70% to 6,910 at some point on January 24 from 4,030 earlier this year. In fact, shares of the two companies have fallen back to the levels seen right before the conflicts over management rights came to the fore.

This fuels speculation in some corners that some kind of market forces will take profit after waiting for small investors to flood in.

Actually, super individual investors in Teems, in a sudden about-face, changed their position and took profit. Kim Sung-soo, who had emerged as the majority shareholder after buying stakes in the company from last November under the pretext of participating in management, unloaded 5.01% of his holdings before market opening that day. His ostensible purpose of participation in managerial affairs was nowhere to be found.

While KYI, an M&A consulting firm which formed an alliance with Kim, has increased its holdings in the company up to 13% since last November,



Teems shares more than doubled at one time to 21,300 won from 10,600 won, resulting in Kim taking profits roughly twice as much the share price. However, that inevitably came at the cost of small investors. Furthermore, as the company became excluded from the public market, it is expected to see its sales plummet approximately 70 percent.

One securities industry official said, “Greed-induced buying prompted by disputes over management rights with super individual investors, not over core corporate values, will inevitably lead to loss,” and dispensed advice to retail investors: “Those investors not only in Teems but in other firms are likely seeking to make huge amount of profits under the pretext of participating in management.” BK



KOSPI Market

Being Propped Up by Institutional Investors

Institutional investors are buttressing the Korean stock market these days with large buying orders.

According to the Korea Exchange, foreign investors recorded a net selling of 1,888.3 billion won, excluding exchange traded funds (ETFs), in January whereas institutional investors net bought 950 billion won worth of shares during the same period. Between the last 11 days of the month, the former net sold 1,746.3 billion won worth of shares while the latter recorded a net purchase of 1,366.6 billion won. In short, institutional investors took what foreign investors sold.

Recently, the Korea Composite Stock Price Index (KOSPI) has declined as foreign investors have sold shares but their institutional counterparts are keeping the index from falling further by means of a flood of buying orders.

“Vanguard’s benchmark changes have resulted in 80 billion won or so of sell orders per day on the part of foreigners but institutional investors, including the pension fund, are increasing their purchase as of late,” said Daishin Securities research analyst Kim Young-il, adding, “The current trend is likely to continue unless foreign funds exceeding Vanguard’s selling flow in.”

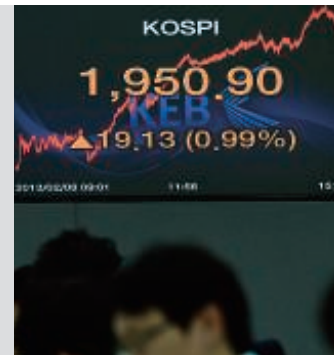
Meanwhile, it has been found that the KOSPI’s growth rate compared with its own annual low point is the lowest worldwide with the other global stock markets enjoying a

rally. Experts are saying that this is attributed to the strong won and weak yen trends as of late.

According to industry sources, the Korea Composite Stock Price Index closed at 1,950.90 on February 8, 10.26% up from the most recent 52-week low of

1,769.31. The rate of increase is much lower than those of the other stock markets. For example, the percentage amounted to 38.19% for the Nikkei 225 Index and 34.30% for Italy’s FTSE MIB Index. Germany (27.00%), China (24.22%), France (23.47%), India (23.15%), Britain (19.67%), United States (18.32%) and Taiwan (14.68%) showed a relatively higher growth rate from their 52-week low, too.

This means that the KOSPI is failing to join the global stock market rally these days to suffer undervaluation, due in part to foreign exchange fluctuations and the withdrawal of capital from the Vanguard funds. “The global stock market has been in a rally driven by liquidity since September last year but the KOSPI has not benefitted from it at all,” said Samsung Securities analyst Kim Ki-bae, adding, “However, since its degree of fatigue is rather low, it will be able to hold out in the event of the global markets entering a stagnation phase down the road.”



Korean Investors

Flocking to US and Hong Kong Stock Markets

Korean stock investors are rushing to overseas bourses with the domestic stock market failing to join the global upward trend found in the United States, Japan, China, etc.

According to the Korea Securities Depository, the total balance of foreign currency securities increased by US\$690.5 million to US\$10.236 billion in January. The foreign securities settlement almost doubled to US\$2.098 billion in just one month, too. This means that overseas stock investment increased significantly with more investors focusing on buying rather than selling the shares.

They purchased a large amount of US and Hong Kong shares in particu-

lar. The balance for the former increased US\$187.38 million to US\$790.32 million last month while that for the latter went up by US\$74.68 million to US\$773.04 million. The balance of yen-based securities increased US\$23.2 million to US\$1.116 billion during the same period as well.

The total settlement, which includes

both the buying and selling amounts, showed the same movement. Those of US, Hong Kong and Japanese securities was US\$285.93 million (US\$137.66 million up), US\$127.54 million (US\$56.95 million up) and US\$17.68 million (US\$6.65 million up), respectively.

The trend can be attributed to the global stock market rally as of late. The Dow Jones Index rose 6.73% from 13,104.14 to 13,986.52 points between late last year and February 6 while the Hang Seng Index and the Shanghai Stock Exchange Composite Index gained 2.65% and 7.29%, respectively, during the period.

Meanwhile, the Korea Composite Stock Price Index declined 3.05% from 1,997.05 to 1,936.19 due to concerns over the strong won and weak yen that is expected to deteriorate the price competitiveness of Korean exporters.



Foreign Investors

Increasing Their Holdings in Samsung, Hyundai and SK, but Not in LG

The proportion of foreign holdings in affiliates of major domestic corporations has increased in the past year. Out of the country's top four groups – Samsung, Hyundai Motor Group, SK and LG – only LG saw a drop in foreign ownership of shares.

According to a report released by the Korea Exchange (KRX) on February 19, foreign investors accounted for 21.75% of all shares of listed affiliates of major domestic corporations such as Samsung, Hyundai Motor Group, SK, and LG as of February 15, compared to 20.81% for the same period last year. Samsung Group recorded the sharpest increase in foreign holdings. Foreigners made up an average of 27.26% of all shares of 17 Samsung affiliates, up 2.54% points compared to 24.72% for 2012. Both Hyundai Motor Group and SK Group saw a modest rise in foreign holdings – from 22.71% to 24.37%, and 13.48% to 13.91%, respectively.

In contrast, LG was the only company out of the big four to witness a drop in foreign ownership. The rate fell slightly, to 22.26% from 23.69% last year.

By affiliate, among Samsung subsidiaries, Shilla Hotel recorded a sharp increase in foreign holdings to 36.4% from 20.88%, and Samsung SDI also registered a rise to 22.81% from 16.34%. At S-1, foreign ownership grew to 49.7% from 42.98%, approaching 50%. Samsung Electronics, however, saw a modest drop in foreign holdings from 50.99% to 50.32%. Out of Samsung's 17 listed affiliates, only four – Samsung Electronics, Samsung Fine Chemicals, Samsung Card, and Credu -- witnessed a scaling back of the proportion.

Among affiliates of Hyundai Motor Group, Hyundai Wia saw its foreign ownership soar to 17.54% from 5.58%. Foreign holdings at Hyundai Mobis expanded to more than half of all holdings to 50.02% from 45.99%. In contrast, Hyun-



dai's steel affiliates – Hyundai Steel and Hyundai Hysco – both saw a drop in foreign ownership, from 21.25% to 18.97%, and 28.09% to 20.51%, each. Among SK Group affiliates, SK Hynix drew attention with foreign holdings curtailed to 25.62% from 28.52%.

Out of LG Group's 11 listed affiliates, all except LG U+, GIIR, LG Life Sciences, and LG Hausys saw a drop in foreign holdings. LG Electronics suffered the steepest decline of 8.26% points, followed by LG International, which witnessed a 7.03% drop. By contrast, LG U+ and LG Life Sciences saw foreign ownership expand, from 17% to 23.83%, and 8.13% to 10.24%, respectively.

It appears that the changes in the proportion of foreign holdings vary by industry. All companies engaged in the information technology industry where massive selling by foreigners occurred this year witnessed a drop in foreign holdings. The same was true for the steel industry, which is struggling amid sluggish sales.

One securities firm analyst said, "Last year, it was LG Electronics that saw the largest amount of selling by foreign investors," and went on to predict, "If major LG affiliates could turn around its operations this year, the proportion of foreign holdings could rise again."

Stock Analyst

No Longer a Dream Job

A wave of layoffs is sweeping through the domestic brokerage industry as a steep decline in trading volume due to the economic slump has wreaked havoc on their bottom lines, and highly paid analysts are the prime targets. Already, several firms have given the pink slips to some of their analysts and researchers.


"Internally, the atmosphere is worse than what it was like during the 1997-98 Asian financial crisis," said an employee

at one brokerage. "Most analysts tend to receive high wages, but many of them are contract workers and are viewed by management as the prime targets for restructuring. Many young analysts have already moved to big conglomerates, while the rest are just hanging on and hoping for the best."

Even until February 2012, total stock trading volume amounted to 10 trillion won (US\$9.23billion), but it has now dropped to the mid 4 trillion won level. Large brokerages are managing to get by with modest profits, but many small-

er firms are struggling to survive the downturn.

Until just a few years ago, the job title of stock analyst was highly coveted due to the chance of making six-figure salaries at a relatively young age. But according to a survey conducted recently by the Korea Employment Information Service, being an analyst now ranks at the bottom of the 100 most desirable professions.

"Due to the tough market conditions, the main topic of conversation among analysts these days is about changing jobs," said one analyst. 

Investments by Conglomerates

Top 10 Spent 5.4 Trillion Won Less than Planned

Korea's top 10 conglomerates, such as Samsung and SK Group, formulated ambitious investment plans last year. However, their actual investments fell far short of original plans.

According to an industry source on February 6, the combined investment planned by Korea's 10 biggest business groups last year was 121.514 trillion won. The investment, however, fell by 5.3936 trillion won due to the global economic downturn.

Early last year, they released a string of ambitious investment plans based on expectations that the global economy would rebound in the second half of the year. Yet, the protracted eurozone crisis and a slowdown in the U.S. economy persisted through the second half, prompting these companies to push back spending.

Samsung Group had originally planned to spend 47.8 trillion won, a record amount, but cut back investment by some 1 trillion won as Samsung Electronics, its flagship unit, adjusted its actual spending on semiconductor and display facilities.

POSCO spent 7.2 trillion won last year, less than the 8.4 trillion won originally planned, as the company delayed some investments amid a stagnant steel industry and heightened global economic uncertainty. Case in point was the No.4 hot rolling mill to be built in Gwangyang, which was pushed back nine months to October, 2014.

SK Group and Hanwha Group, both of which have had a tumultuous year with CEOs appearing in court for embezzlement and breach of trust, respectively, also spent less than planned. SK spent only 15.5 trillion won out of the 17.6 tril-

lion won originally planned, while Hanwha poured in 1.5 trillion won out of an initial figure of 1.9 trillion won.

Of the 3.1 trillion won and 6.73 trillion won each initially planned for investment by GS Group and Lotte Group, 600 billion won and 230 billion, respectively, didn't materialize. Hanjin Group also cut back on ship purchases due to a lackluster shipping industry, resulting in investment falling 260 billion less than planned.

Of the top 10 companies, LG Group is the only one to spend more than planned, 400 billion won more than the original figure of 16.4 trillion won, as two of its tech business units, LG Electronics and LG Display, increased spending on the development of high-tech products such as Olleh TV.

Hyundai Motor Group and Hyundai Heavy Industries each spent 14.1 trillion and 2.4 trillion won, respectively, last year as was originally planned.

Meanwhile, the 10 biggest conglomerates, excluding the top two of Samsung and Hyundai Motor Group, are likely to pay far less in income taxes this year due to a prolonged economic slump. Given that corporate taxes represent more than one-fifth of total national tax, a significant reduction in corporate taxes is expected to put financial burden on the incoming administration.

According to data released by Chaebul.com, a tracker of local business groups, 82 affiliates of the country's top 10 conglomerates are estimated to pay 11.722 trillion won in taxes this year. These estimates were based on tentative business results for fiscal year 2012 of the listed companies whose fiscal year ends in December.



Though numbers represent an increase of 16.7% or 1.678 trillion won compared to the 10.440 trillion won of 2011, eight conglomerates out of the top ten, excluding Samsung and Hyundai Motor Group, are likely to pay 12% - 48% less than they did last year.

In terms of the rate of decline in corporate tax, Hyundai Heavy Industries is forecast to top the list (-48.1%), followed by GS (-37.6%), Lotte (-27.8%), Hanwha (-20.7%), LG (-14.8%), and POSCO (-11.5%). Hanjin Group (5 subsidiaries) is projected to pay virtually no income tax for the fiscal year 2012 due to massive net losses before tax a year earlier.

In contrast, Samsung Group (13 units) is forecast to see its income tax soar 126.7%, or 2.809 trillion won from a year earlier to reach 5.026 trillion won due to its robust global sales. Last year the group paid 2.2179 trillion won in taxes.

The income tax of Hyundai Motor Group (9 subsidiaries) also is expected to rise 15.4% on-year to 3.138 trillion won compared with 2.718 trillion won a year earlier as its earnings before tax are estimated at 15.195 trillion won, up 16.2% from the year before. **OK**

Rising Yen-Dollar Exchange Rates

A Limited Impact on Korean Industries in General?

It is analyzed that rising yen-dollar exchange rates are not giving a great impact on Korean industries, just hitting small-scale exporters

Korean exports showed double-digit growth in January, 2013 from the same month last year when exports reached a one-year low. Nevertheless, it is predicted that Korean exporters will have a hard time this year due to ongoing concerns about the global economic recession and falling exchange rates.

The Ministry of Knowledge Economy said on February 1 that January exports amounted to US\$ 46.085 billion, up 11.8% year-on-year, recording double-digit growth in 11 months.

In January last year, when concerns over deterioration of the European fiscal crisis culminated, the nation's exports were freezing. To make matters worse, the official Lunar New Year holidays continued for four days from Saturday, with many export companies granting extra holidays to employees. As a result, last year's January exports recorded only US\$ 41.210 billion, the lowest of the year.

Thus, at a time when foreign exchange rates are in a downward trend and the global economy still remains depressed, it is not sensible to interpret one-time double digit export growth as a green signal for upcoming export expansion, said the Ministry.

Rather, the Ministry worried that the recently falling won-dollar and won-yen exchange rates might undermine exporters' competitiveness and profitability this year, even with the year-on-year export growth in January.

Many industries showed an upward curve in exports on a year-on-year basis for the first month of this year; wireless



communication devices (up 32.8%), automobiles (24.3%),

petrochemicals (17.8%), textile (17.4%), LCD (16.4%), petroleum products (11.7%), semiconductors (6.4%) and general machinery (3.2%). On the other hand, some industries recorded negative export growth for the same period; steel and iron (- 8.0%) and shipbuilding (- 19.9%).

The nation's imports stood at US\$ 45.211 billion for the same period this year, up 3.9% year-on-year. The nation recorded a US\$ 874 million trade surplus in January, 2013.

Relatively Free from Soaring Yen-dollar Exchange Rate?

It has been pointed out that a yen-dollar exchange rate going extremes would have a limited impact at best on Korean industries, while the weak yen is more likely to deal a blow to the Japa-

nese economy.

Securities analysts' consensus is that a rising yen-dollar exchange rate affects the steel, automobile, mobile phone, semiconductor and IT component industries of Korea the most. According to them, the steel industry's operating profits would decline 4.4% when the exchange rate rises from 90 yen to 110 yen per US dollar, while those of the automobile, mobile phone and semiconductor and IT component sectors decreased by 4.2%, 2.3% and 0.2%, respectively. Only the chemical industry is expected to increase its business profits by 2.6%.

Still, economists are saying that the weak yen trend will have a less-than-worried adverse effect on industries even on the assumption that the yen-dollar rate reaches as high as 110 yen per US dollar, which is regarded as an extreme level. "Actually, even an exchange rate of over 95 yen per dollar is considered

overheated and thus it's right to say that 110 yen is impossible," said Samsung Securities analysts Kim Yong-koo, adding, "Even in that case, domestic industries' operating profits fall by just 4% and this isn't such a meaningful figure."

A continuing weak yen trend could negatively affect the trade balance of Japan, though. "For Japan, energy imports account for approximately 30% of total imports, which means the weak yen could be a disadvantageous factor with oil prices on the rise," the analyst added, "The 'Abenomics' ultimate goal can't be met, even though its exports increase, if the trade balance deteriorates due to an increasing dependence on imported energy."

The researcher forecast that yen-dollar exchange rates would continue to rise for a while, though not so steeply. "To win the House of Councilors election scheduled for July this year, Prime Minister Shinzo Abe has no option but to resort to an expansionary monetary policy," he said, adding, "Although the exchange rate is likely to go up, a steep rise could lead to situations more unfavorable for Japan than for Korea."

Small-scale Exporters Harmed by Exchange Rates

Small and mid-sized exporters in Korea are, however, taking a direct hit from the recent fall in the exchange rate. In particular, home appliance manufacturers and automobile companies are taking the brunt of the coincidence of the weak yen and strong won, losing their price competitiveness against Japanese corporations.

The Korea Chamber of Commerce & Industry's special task force recently conducted a survey regarding their losses due to foreign exchange fluctuation and announced on February 5 that 92.7% of the 300 respondents answered they were suffering from a decline in the won-dollar exchange rate. The percentage had stood at 53.1% in the November 2012 survey, signifying that their business loss is skyrocketing due to the recent strong won trend.

The exchange rate had dipped below 1,100 won per US dollar in November last year. The downward movement has continued this year, and the January average fell to 1,066 won.


All of the automobile companies and consumer electronics manufacturers that participated in the survey answered they were suffering. Furthermore, the same answer was given by more than 90% of rubber and plastic manufacturers (96.6%), information and telecommunications equipment makers (96.2%), shipbuilders and plant builders (92.6%) and machinery and precision equipment companies (92.3%). 88.5% of petrochemical and chemical companies and 86.2% of steel and metal manufacturers answered they were experiencing damage as well.

67.6% of respondents reported at least some foreign exchange loss with regards to exports already made, followed by deteriorated profitability and

a decrease in working capital (27.7%), drop in exports due to lowered price competitiveness (21.6%) and the necessity of readjustment of investment and employment plans already set (12.9%).

30.9% of respondents said they had no specific countermeasure on hand against the foreign exchange decline. 58.3% of respondents, meanwhile, were found to be resorting to cost reduction only.

47.3% of companies said that they would not reflect the exchange rate decline in their export prices. 91.1% of other firms answered they would do so only within a range of 10%, implying that most of the surveyed companies are shouldering the damage themselves.

In the meantime, 41.4% of those surveyed said they were suffering damage from a weak yen. 54.8% of them reported foreign exchange losses while 43.5% mentioned a decrease in exports due to some loss in price competitiveness. 

Effects of KOR-US FTA

US Trade Deficit with Korea Widens after FTA

The U.S. trade deficit with Korea ballooned last year following the free trade agreement it signed with the Asian country.

According to the "International Trade Statistics" released on February 8 by the U.S. Commerce Department, the U.S. imported a total of US\$58.88 billion worth of goods from Korea last year, up 3.9% from US\$56.661 billion a year earlier. In contrast, the U.S. exports fell 2.5% to US\$42.318 billion, compared to US\$43.415 billion a year earlier.

As a result, the U.S. trade deficit with Korea last year totaled US\$16.562 billion, up a whopping 25% compared to US\$13.247 billion a year earlier. In particular, U.S. imports of Korean cars and car parts soared.

Some observers in the U.S. are clamoring for counter-measures claiming that the free trade agreement the country signed with Korea turned out in Korea's favor.

The U.S. consumer group "Public Citizen" released a statement last month that says that after the U.S.-Korea FTA took effect, US goods exports to Korea have been on a cyclical downward path, and criticized the Obama administration, saying that "The administration promised that the agreement would boost U.S. exports and create more jobs, but results are the exact opposite of what have been pledged."

The government reportedly took action to analyze the impact: The U.S. Trade Representative Ron Kirk recently requested the International Trade Commission to draw up and submit a report that analyzes the impact of the U.S.-Korea FTA on U.S. small businesses.

Incheon City

Positioning a Global Green City

With the attraction of the Secretariat of the Green Climate Fund, the metropolitan city is to become a hub of green finance and industry



Song Young-gil, the Mayor of Incheon City

Business Korea interviewed Incheon City mayor Song Young-gil, who is very busy these days preparing for the 2014 Asian Games and the opening of the Secretariat of the Green Climate Fund (GCF). “We’re going to make an additional investment of 370.8 billion won within this year so that the construction of the nine stadiums, including the main stadium, progresses smoothly,” he said regarding the Asian Games, adding that more government support through a timely revision to the 2014 Asian Games Support Act is necessary for expanded government expenditure. He added, “We, as the host of the Secretariat, are doing our utmost to become one of the global hubs of green finance and green industry for sustainable global economic growth.”

What is your long-term roadmap to position Incheon City as the linchpin of the Asian economy?

We are currently benchmarking some cities in advanced nations whose historical and geographical backgrounds or future visions are similar to ours. The examples include Yokohama, Japan, which has turned itself into a place where the future and the past are in perfect harmony through the Minato Mirai Project launched back in the 1980s, Shanghai China, which is the center of Asian economy and finance, Vancouver, Canada, which is leading the growth of eco-friendly industries, and Bologna, Italy, home to the most advanced type of social economy and productive welfare, characterized by well-developed social enterprises and co-ops.

The Songdo International City’s future slogan is Geneva in Korea: Global Green City. It will play host to a number of international organizations and conferences and the key social infrastructure will be further refined in the fields of education, public transportation, security, culture, etc.

At the same time, we are planning to establish green industry clusters for the financial, biotechnology, information technology and other sectors in order to become the venture capital center of Asia. The GCF, in this context, will be fully utilized for the revitalization of the domestic financial industry through the benchmarking of the advanced service functions of international financial hubs, ranging from legal and accounting consulting to tax, IT, and personnel training services.

Lastly, Incheon City will become a foothold for global service industries. We will make the most of the Seoul/Incheon International Airport to boost the tourism, leisure, shopping and entertainment industries, all of which boast high job creation effects.

Incheon City in general, as well as the Songdo region, will grow into a center of green business, knowledge-based industries and so forth by raising its global brand value as a leading international city. The GCF, the Global Green Growth Institute (GGGI) and the Green Technology Center (GTC) will spearhead global green growth so that the region can lead the green finance and industries of the future.

What is the current progress of the establishment of the GCF Secretariat in Songdo? What economic effects do you expect from hosting the organization?

After the decision was made, we organized a task force to work on follow-up measures and plans, while also speeding up our preparations for the construction of Incheon City as



Global Green Capital, began negotiations for further support, and looked at how to improve residential conditions. The GCF Secretariat is expected to be opened in Songdo between June and July next year, not long after the related agreement is wrapped up between the Korean government and GCF headquarters.

At present, Incheon City is paying keen attention to the preparation of office areas, guidebooks for visitors, global centers and so on, so that the secretariat can be opened and operated as scheduled.

According to the Korea Development Institute (KDI), the hosting of the secretariat is expected to result in 380 billion won of economic benefits annually, assuming that 500 GCF employees stay there. The Incheon Development Institute (IDI) has also estimated the regional economic effect at approximately 190 billion won per year. It will contribute to work to attract more investment into the Incheon Free Economic Zone (IFEZ) as well.

In addition, it will act as a sort of political and diplomatic bridge between developed and developing nations, increasing its influence in the international community and helping relieve tension between the two Koreas. Furthermore, in social, cultural and environmental aspects, it will be a boon to the city's brand image as a leading low-carbon, green city.

You are currently intending to attract a new office of the World Bank as a prerequisite for the hosting of the GCF. What are the specific details and anticipated economic benefits?

Once the office of the World Bank is determined to be located in Incheon, the local government will provide as much financial support as it will do to the GCF Secretariat. For now, we are planning to rent an entire floor of the Songdo i-Tower to the World Bank office free of charge, while also reducing electricity, water bills, etc.

Furthermore, we will provide high-speed Internet networks and facility repair and maintenance services for free, along with interior design services and various appliances and equipment. The conference facilities of the Songdo i-Tower and the Songdo ConventiA will also be provided free of charge. In all, the benefits amount to approximately 590 million won a year.

According to the policy of the GCF Design Committee, which governs how to run the secretariat, the fund is to be deposited in the World Bank for three years. In addition, on the part of the World Bank, it is more advantageous to share the venue with the executive office of the large-scale international body of GCF.

Please leave a word to the people at home and abroad who are closely watching Incheon City making headway into the economic hub of Northeast Asia.

Incheon has many comparative advantages in terms of transport infrastructure and international logistics networks.

The Seoul/Incheon International Airport has been selected as the world's best airport for seven consecutive years, and 79 airlines fly from there to 182 cities worldwide as of 2012. The best transport logistics infrastructure of the airport will be more closely linked to the IFEZ to accelerate the development of future growth drivers.

In the meantime, Incheon Port is the center of maritime transportation in Northeast Asia, connecting the major cities of South and North Korea and port cities around the world. Once the Northern Port and the Southern Port are completed, it will become the largest international port city of the Northeast Asian continent.


“Incheon's growth potential knows no bounds. It is home to a large, highly-educated workforce, and is situated in the vicinity of the Seoul metropolitan area with a population of more than 20 million”

Incheon's growth potential knows no bounds. It is home to a large, highly-educated workforce, and is situated in the vicinity of the Seoul metropolitan area with a population of more than 20 million. Furthermore, it is just a stone's throw from China, where more than 350 million consumers are enjoying an annual income of over US\$30,000.

In particular, the Songdo region is just 15 minutes drive away from the Seoul/Incheon International Airport through the 21km-long Incheon Grand Bridge, which was completed in October 2009. From the airport, you can fly to 61 major cities with a population of 1 million population each, including Shanghai and Tokyo, in no more than three hours.

Incheon is open to Northeast Asia beyond China, all the way to Mongolia and Siberia. The city will add to the hope of Korea by fostering regional exchange. The IFEZ, which covers Songdo, Yeongjong and Cheongna, will be at the vanguard of such efforts.

The hosting of the GCF Secretariat will further enhance Incheon's global competitiveness. The secretariat will represent the IFEZ and serve as significant momentum for the global city of Incheon to become even more future-oriented and eco-friendly.

The IFEZ promises that it will create one of the world's three largest free economic zones by pursuing and meeting the three ambitious goals; the development into an global city home to a lot of international organizations, establishment of service industry hubs as the provider of the best financial, shopping, tourism and leisure services, and finally the construction of the top-class eco-friendly city. 

International Cooperation Department of Incheon City

Aiming to Widen Scope of International Cooperation

The International Cooperation Department of Incheon City (Director General Yu Pyung-ryun(Brian)) is busy these days organizing its schedule for the year. The office works out master plans for the city's international exchange and cooperation with its peers worldwide, and takes charge of foreign investment attraction to the IFEZ and non-IFEZ regions alike.

The office's emphasis for this year lies in widening the scope of international exchange by furthering its amicable relations with sister cities. Specifically, it is aiming to shore up autonomous diplomacy capabilities for mutual prosperity and make better use of human resources to make the GCF and the 2014 Asian Games a success. At the same time, the mayors of

Incheon and Tianjin, China, are to meet with each other this year, celebrating the 20th anniversary of diplomatic relations, and to achieve greater mutual cooperation.

At present, Incheon City is engaged in mutual exchange programs with 34 cities in 17 countries. The office is planning to provide more humanitarian medical aid to such nations, while launch-



With the inducement of the Green Climate Fund(GCF) Secretariat, Songdo ConvensiA set its vision for greener change by aggressively hosting green conventions and exhibitions and adopting a green management system.

2012, "A Year When Business Met Pleasure"

There were several inaugural professional and trade events held at Songdo ConvensiA. They included the RI World Congress, SKAL Congress and GCF 2nd


Board Meeting – all held in 2012. Thanks to its superior accessibility, located within 15 minutes drive of Korea's main gateway, Incheon International Airport, ConvensiA hosted 7 medical conferences, which are assumed to have had a US\$10

ing social contribution activities through joint efforts between the public and private sectors so that the positive effects of its humanitarian aid projects can be maximized.

Projects will take place in Banten Province, Indonesia, Ulaanbaatar, Mongolia, Phnom Penh, Cambodia, and Naboi, Uzbekistan, etc. The office will provide medical assistance to 22 children with heart disease and three others in conjunction with the Incheon city government, Gil Medical Center of Gacon University, and Inha University Hospital.

Furthermore, the agency is making cautious preparations to re-launch inter-Korean cooperation projects, which have been halted since the North's attack on Yeonpyeong Island and the sink-

ing of the Cheonan ship. To this end, it will operate the Incheon Academy for Inter-Korean Economic Cooperation for those small businesses, citizens, public employees and NGOs that wish to take part in inter-Korean exchange and joint economic projects.

The academy provides special lectures, in-depth knowledge and information regarding economic cooperation between the two Koreas and business in the North, as well as helps them establish human networks. "This year will be the busiest year in our history, when we'll put great effort into fostering international exchange so Incheon can become the economic center of the world, and not simply be limited to being a hub city of Northeast Asia," said the director general Yu. 



Yu Pyung-ryun (Brian), Director General of International Cooperation Department

million regional economic impact.

Under the slogan "Business and Pleasure," Songdo ConvensiA made efforts in adding "pleasure" to the original business concept by designing a fun package – "TOREVIEW (360 degree simulation viewer)" and "Guide Map for Playing, Eating and Staying." As a result, the number of visitors increased almost 30% from the previous year, while various media rushed in to expose the venue as a backdrop for popular TV programs and films.



2013, "A Year for Greener Change"

As of December 2012, 21 members of the Incheon MICE Alliance signed up for a green convention protocol at Songdo ConvensiA. This agreement was made among hotels, restaurants, airports, and travel agencies in an effort to make Incheon reborn as a green MICE city. Furthermore, ConvensiA is paving its own way towards greener change. ConvensiA is now developing a "green practice manual" for all housing employees. The campaign encompasses 3 domains; green meetings, green office management, and green facility maintenance, as well as a checklists to keep scores of eco-events.

ConvensiA is trying actively to host green and energy conventions or exhibitions by appealing global and green image — Asia-Pacific Climate Change Adaptation Forum (Mar. 18~20), Global Green Growth Summit (Jun. 9~11) and

CCS Global Symposium (Oct. 8~10) are already scheduled. Furthermore, "Green Environment & Medical MICE Special Support Program" by Incheon Convention Bureau expects to draw even more "green" conventions throughout the year. In fact, Songdo is Korea's first eco-city designed for meeting LEED (Leadership in Energy Efficiency and Environmental Design) standards. Not to mention, ConvensiA's voluntary efforts of earning LEED credentials with open space, solar passive design, waste management system and hybrid car charging stations.

"With the GCF secretariat, Incheon and Songdo will emerge as the center for international environment activities. Undoubtedly, Songdo ConvensiA's greener efforts this year will serve as the best practice of sustainable responsibility in the MICE industry" says Lee Jong-eun, Chief of the Center.

2013 Green Conventions to B Held at Songdo ConvensiA

No.	Name of Event	Period
1	Global Hub Korea 2013	Apr. 29~30
2	Asia-Pacific Climate Change Adaptation Forum	Mar. 18~20
3	Global Green Growth Summit	Jun. 9~11
4	CCS Global Symposium 2013	Oct. 8~10

Outline of venue facility

Type	Information
NAME	Songdo ConvensiA
MANAGEMENT	Incheon Development & Tourism Corporation
CONSTRUCTION	NSIC(Gale International & Posco)
DATE OF OPEN	Oct. 7, 2008
SIZE	1,200,000 sq.f / 111,485 sq.m

Incheon Free Economic Zone (IFEZ)

Heading for Another Decade of Great Strides

Incheon Free Economic Zone (IFEZ), which made great achievements last year, such as the hosting of the Green Climate Fund (GCF) Secretariat despite unfavorable global economic conditions, is striving to make further strides.

"Our accomplishments of last year wouldn't have been possible without the support of all Incheon citizens and the dedicated efforts of our staff," said Commissioner Lee Jong-cheol of IFEZ Authority, expressing his gratitude during a recent interview with BusinessKorea.

"The government's tax incentives have been expanded to cover engineering and information service businesses and the equity capital requirements applied to economic zone developers have been eased, while a preliminary review system for casino businesses has been introduced for better development and investment environments," he went on to say, adding, "This year marks the 10th anniversary of the designation of Incheon City as a free economic zone, prior to any other city in Korea, for the creation of new growth drivers, and we'll redouble our efforts for an even brighter future."

Record-high Investment Attractions

One of the most notable accomplishments of the IFEZ last year was that its foreign investment attractions hit a new high. The organization attracted US\$2.07 billion of foreign investments in 2012, the highest since its inception back in 2003. The commissioner emphasized that he will set a new record yet again this year through a great deal of effort.

Furthermore, the IFEZ hosted the Secretariat of the GCF, which is the first international organization in the environ-

mental field to be led by Asian nations. Its presence is expected to enhance the global standing of the IFEZ, along with the 10 other international bodies to be housed there, including the Northeast Asia office of the UN Economic and Social Commission for Asia and the Pacific (UNESCAP).

With regards to the hosting of the GCF Secretariat, he remarked, "The Secretariat is likely to be housed in the I-Tower in July or August this year and the number of its staff is expected to be less than 100 during its early stage. Between March 12 and 15, the first board of directors meeting of the GCF will be held in Berlin, Germany for the approval of the agreement between the Korean government and the GCF headquarters and the selection of the secretary-general. The agreement will be ratified between April and May before the agreement is signed by both."

He added, "If the Korean office of the World Bank, the world's largest international organization in the financial industry, follows the Secretariat to be housed in the IFEZ, the symbolic value will be truly great, and I hope that good news will come sooner or later." The World Bank sent a working group in early December 2012 regarding the establishment of the regional office and conducted a field survey, confirming that the IFEZ has the most optimal conditions for the office.

Foreign Universities to Be Housed in IFEZ

At the same time, a number of world-renowned colleges are waiting to find their way into the IFEZ. According to the Songdo Global University Campus



Lee Jong-cheol, IFEZ Commissioner

Project, around 10 foreign universities are planned to be housed in Zone 7, which is located in Songdo-dong, Yeonsu-gu, Incheon City, with more than 10,000 students. The goal of the undertaking is to keep together competitive colleges and departments for the exchange of knowledge and culture between the East and the West and the promotion of Northeast Asia studies.

During the course of the project, State University of New York (SUNY) Korea was opened in March 2012 as the first foreign college in Korea, giving wings to the IFEZ's strategy to turn itself into a global education hub. The undergraduate Department of Technology Management is scheduled to be opened in March this year after the Education, Science and Technology Ministry's approval. In addition, George Mason University is slated to be opened there in March 2014.

"Throughout this year, the global recession will linger on to add economic uncertainties, which means a lot of development and investment projects will have a hard time procuring financial resources," said the commissioner, "However, the IFEZ will turn the crisis into an opportunity with its return-to-basics attitude and out-of-box thinking; striving to get closer to the goal of becoming the business center of Northeast Asia." ■

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Overseas Natural Resources Development Who Is to Spearhead Korea's Policy?

KIGAM is mentioned as the "control tower" while others say it would be better for it to remain a researcher and information provider

The Park Geun-hye government is mulling over the necessity of a control agency to supervise the development of overseas natural resources. Specifically, the government is intending to upgrade the Korea Institute of Geoscience and Mineral Resources (KIGAM) and provide it with full-scale support so that it can assume a central role in this area of great importance.

Industry experts are welcoming the news, having advocated the establishment of a pivotal, ministry-level institution to take charge of such matters. Still, opinions are split regarding the detailed future role of KIGAM. Not a few are pointing out that the organization should have more leadership, policy initiative and competitiveness to cover everything about overseas natural resources development and embrace related entities in both the public and private sectors.

At the same time, voices are being raised that the new government's energy security policy direction is still rather unclear. As a matter of fact, the incoming government has not come up with any policy measures with regards to overseas natural resources development, which are key to protecting energy security. The lack of such policy actions is quite contrary to the Lee Myung-bak administration, which put resources diplomacy as a top priority from its very inception. It has raised the self development rate for oil from 4.2% to 13.7% during the last five years. Nevertheless, despite this achieve-

ment, few experts are rating the administration's policy for overseas natural resources development as successful. "Problems have been around all throughout the term, surrounding the development of natural resources abroad, such as the hasty purchase of mining lots, show-offish projects led by those in the inner circle, and the somewhat wrong method of calculating the self development rate that has caused an optical illusion," said one.

Over the past five years, national state-run energy companies such as the Korea Gas Corporation and the Korea National Oil Corporation (KNOC) have made great efforts for overseas resources development, and private-sector companies have also joined in these endeavors. They have achieved excellent results at least on the surface. As of the end of 2011, Korean corporations are engaged in no less than 307 projects in 48 countries around the world, working on 37 types of resources, with their total cumulative investment adding up to US\$9.8 billion. This total investment has tripled and the number of participating companies more than doubled over four years ending in 2011, when the self development rate for fix strategic minerals and the total amount reached 29% and US\$12.1 billion, respectively.

However, Korea's energy self-sufficiency rate is standing at just around 4%, easily eclipsed by the OECD member countries' average of 60%. It does not take a genius to figure out

how vulnerable it is in terms of energy security, with the energy self-sufficiency rates of the United States, China and Japan being as high as 81%, 93% and 38%, respectively. Korea has an industrial structure highly dependent on manufacturing and imported energy resources. Furthermore, dependency on the consumption of natural resources is gradually on the rise.

Practical Interests Matter the Most in Overseas Resources Development

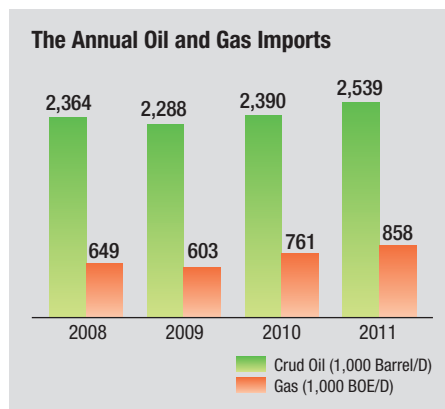
According to professor Shin Jung-shik, who is heading the Korean Resource Economics Association, resource nationalism is intensifying these days around the world and countries are racing to take more and more natural resources, meaning the importance of a stable supply of natural resources is higher than ever. "Existing government-led resources development policy has not been free from dissenting opinions in view of the characteristics of the business, and therefore the government and private sector should discuss the division of roles from now, even if this is belatedly," he said in a recent report, suggesting seven agenda items of: readjustment of policy goals; enhancement of energy cooperation diplomacy; refinement of the administrative systems to that end; improvement of the capabilities of domestic natural resources developers; reorganization of industrial support systems; establishment of infrastructure for resources development; and the full revision of related laws and regulations.

The first item is characterized by the reestablishment of the concept of independent energy development and complementary measures associated with indices and indicators that can better current circumstances. The second is to avoid one-off, result-oriented diplomatic activities led by high-ranking figures and political purposes to pursue practical interests instead. It is directly related to the third goal that is reorganizing the administrative systems into the Ministry of Knowledge Economy while reducing the intervention of the Prime Minister's Office and the Ministry of Foreign Affairs and Trade.

More Discussion Needed Regarding Role of Policy Coordinator

It has yet to be determined how much the status of the KIGAM should be promoted. Some industry insiders are even remarking that it may as well remain an information and service provider, rather than a control agency, in view of its past role and the size of the corporation.

"Overseas natural resources development projects require huge funds and high value added technologies throughout the entire steps ranging from exploration and development



to actual production," said a senior official at the company, pointing out, "Korea's resources development and service industry is lagging behind other countries' and thus Korean companies can't but pay an increasing amount of expenses to their foreign counterparts as the investment goes up." The term of resources development service is defined as providing related services to resources developers abroad.


As of now, the Ministry of Knowledge Economy is taking a cautious stance regarding the determination of

its role, simply reiterating that no guidelines have been given from the government. The ministry is currently moving ahead with some measures for the promotion of basic sectors in the industry and the establishment of the Resources Development Service Center in accordance with the 4th National Program for Overseas Resources Development. These measures include giving the KIGAM the role of managing the center in which domestic resources development service companies are to join as members. In addition, the KIGAM is supposed to function as a channel receiving service contracts while taking charge of business certification, equipment management and international personnel exchange. It is said that the broad capabilities of the institute, which is an affiliated organization of the ministry covering the development of petroleum, gas and mineral resources, have caused it to emerge as a new control agency in the industry.

Nonetheless, such remarks that the institute is not enough to act as a pivotal center in that it has concentrated on supporting activities such as research projects, information service and technical assistance are not entirely groundless.

In fact, larger organizations like the KNOC and Korea Resources Corporation (KORES) are refraining from coming forward to take the role, despite agreeing on the necessity of a sort of command center. KORES is striving to enhance its technological strength and intends to hire more employees until 2020 in order to make a better business partner for private-sector players. However, it is aiming to become the leader of the mineral industry rather than an all-encompassing policy coordinator.

KIGAM itself is very prudent, too. "As far as I know, nothing has been fixed yet and it seems that the rumors began to spread outside the company first while our employees remaining ignorant," one of its executive members said.

Overseas natural resources development is a matter of national security beyond economic significance. It should be a top-priority, national policy task for sustainable future growth and maintain its direction regardless of regime change. More attention should be paid to the new government's will and specific action plans than to who takes the critical role. 

Hyundai Corporation

Concentrating on Overseas Natural Resources Development

Based on Wide Networks Established for General Trading

General trading companies in Korea are transforming themselves from groups of desk-bound workers to field-oriented workers trotting the globe in search of petroleum and mineral resources. Hyundai Corporation is no exception.

Hyundai Corporation's natural resources development activities are in progress in a wide variety of fields, including an LNG development project in Oman that started actual production in February 2000. Hyundai participated in the undertaking in 1997 by acquiring 1% of the shares and has enjoyed strong dividend income since 2001. At present, 7.1 million tons of gas is known to be produced each year through the project.

In 1998, Hyundai Corporation took part in a similar LNG project in Yemen. The purpose of the two LNG production plants, having a combined annual capacity of 6.9 million tons, is to turn natural gas developed above the ground approximately 175km away to the east from the capital city of Sana'a into liquefied natural gas at the Balhaf Port in the southeastern region of the country.

In the meantime, it has been in contract with the Ras Laffan LNG Production Plant in Qatar, which began to produce 6.8 million tons of LNG a year in August 1999, to supply 4.8 million tons of the material with the Korea Gas Corporation (KOGAS). Hyundai is in possession of 0.4% of shares in the plant. In Vietnam, it owns 4.8% shares in the 11-2 Gas Field, which was declared commercially viable in 2003 after the discovery of gas in 1998. Its possible



reserves are estimated at approximately 18 million LNG-equivalent tons.

Hyundai Corporation has also written many success stories in the development of coal and other mineral resources. It started the production of bituminous coal in 1983 at the Drayton Coal Mine in Australia, where it has a 2.5% share. The company concluded a joint venture agreement for the purpose in January 1981 and achieved operating profits of US\$2 million in 2011. The license is valid until 2016. The Drayton Coal Mine Development Project is the first large-scale overseas natural resources development project led by a private-sector company in Korea. Hyundai expects the project will contribute to the stable domestic supply of coal and its penetration of the African market down the road. It is currently planning to accelerate the development of strategic minerals, such as soft coal, copper and iron ore, more aggressively than ever.

More recently, Hyundai Corporation joined the development of the Ambatovy Nickel Mine in Madagascar in August 2010, when it formed a consortium with

Hyundai Heavy Industries and acquired 2% share. According to the company, the acquisition of the shares has led to the diversification of mineral supply sources from the Middle East, Australia and Vietnam to Africa, and expansion of the business scope from soft coal, petroleum and natural gas to non-ferrous metal.

Now, Hyundai Corporation is working on shale gas as well, which is one of the most rapidly emerging energy sources of the future. It is doing studies on project participation in the United States, while mulling over joining the consortiums of the Korea National Oil Corporation (KNOC), the KOGAS, and major local and foreign developers in the private sector, etc. "We'll be focusing more on equity investment during the early days of such projects and moving to purchase mining lots with time, engaged directly in the operation and management," said the company.

It is said that Hyundai Corporation has the best conditions for overseas natural resources development. The strength lies in its numerous business sites and networks that were set up in the past for foreign trade. "The success or failure of an overseas natural resource development project is determined during the early, information gathering phase," said an industry insider, adding, "It is because of their forte in terms of information gathering capabilities that general trading companies, including Hyundai Corporation, could change their business direction with such ease." Bk

Korea National Oil Corporation

Striving to Go Global through Win-win Growth with Subcontractors

The Korea National Oil Corporation (KNOC) has made continuous investments in the development of natural resources abroad in an attempt to add to the national financial resources and strategic petroleum reserves of Korea. As a leading natural resources developer representing the country, the KNOC is planning to redouble its efforts for overseas resources development this year, which is one of the top-priority agenda items of its incoming government.

The corporation has been engaged in overseas natural resources development since 1980. It has participated in a number of projects in the United States, Norway, Netherlands, Vietnam and many more and now is running 240 business sites in 24 countries, 102 of them producing crude oil. Its self-development rate for oil, according to the statistical data of the Ministry of Knowledge Economy, more than tripled from 4.2% to 13.7% between 2007 and 2011.

The KNOC's predecessor, Korea Petroleum Development Corporation (KPDC), was founded in March 1979 to better develop petroleum resources at home and abroad, stockpile oil and improve the industrial distribution structure.

In December 1987, the KPDC discovered gas in the continental shelf of Korea for the first time in history.

Korea's first overseas petroleum development project dates back to 1981, when KODECO Energy Corporation set foot in the Madura Oil Field in Indonesia. The project launched three years later in the Marib Oil Field, Yemen, in which the KPDC and SK Corporation took part, is one of the most frequently cited success stories of Korea's resource-

development efforts abroad. The oil field started its commercial production back in 1987 and is producing crude oil even at this moment.

Its Vietnamese office was opened in 1992 and the Oil Development Center in 1995. Its local subsidiaries in the UK and Indonesia were established each in 1996 and 1997 by the name of KCCL and KSL. It also discovered a large quantity of petroleum in the 15-1 drilling site in Vietnam in 2000 and, in 2008, acquired producing well assets in the Gulf of Mexico from the United States while signing concessionary contracts for eight oil drilling sites with Iraq's Kurdistan Regional Government. In December 2009 and June 2010, it took over Sumbe in Kazakhstan and Dana in Britain, too.

In the meantime, the KNOC was making cautious preparations at that time to develop the East Sea-1 Continental Shelf Gas Field in Korea. It conducted assessments with different domestic and foreign organizations and exerted great efforts to make the development project successful. The expertise and know-how acquired through the project have served as a valuable asset for it up to this date in terms of oil and gas field evaluation, design of production facilities, etc.


Since 2000, Korea's petroleum development projects have been led mostly by the KNOC and SK Corporation. The two companies have thrived worldwide through a series of large-scale projects, including those at the East Sea-1 Gas Field, the Elephant Oil Field in Libya, and the 11-2 and 15-1 Oil Fields in Vietnam.

The state-owned oil company held a vision declaration ceremony for win-win



Petrotech photosphere in Peru

growth on January 28, 2013 at its main office located in Anyang City, Gyeonggi Province. "Today, we proclaim our vision of win-win growth to share our prosperity with small and midsize enterprises," said KNOC president Seo Mun-kyu there, adding, "We're going to achieve our seven strategic goals through three strategic directions as early as possible so that we can remain the most reliable partner of small businesses in the industry."

According to the company, the three strategic directions are to help smaller business partners enhance their global competitiveness, to foster fair trade practices and to spread the culture of shared growth. The seven action plans to meet the goals are divided into: further support for the commercialization of promising technologies; assistance in global market penetration; expansion of profit sharing; more purchase of products manufactured by local small businesses; maintenance of fair subcontracting practices; pursuit of mutual prosperity; and enhancement of specific systems to this end. 

2013 Cosmetics & Beauty Expo, Osong Korea

Promoting Korean Beauty

Cosmetics and beauty exhibition, to be held in May in Osong area, Chungcheongbuk-do Province for the first time in Korea, opens a prelude to “K-Beauty”



The Organizing Committee for the 2013 Cosmetics & Beauty Expo, Osong Korea (here after, the Expo) is tuning the final touches of all preparations, from expo programs to venue construction, to take care of 300 domestic and foreign companies, 2,000 buyers and one million visitors who are expected to flood the 24-day Expo from May 3 through 26 this year.

The Expo is co-organized by Korea Food & Drug Administration, Cheongju-si, Cheongwon-gun and Chungcheongbuk-do, with support of the government for the first time as a cosmetics and beauty exhibition. The Chungcheongbuk-do has an ambitious strategy to grow Osong as the hub of cosmetics R&D and distribution as well as the educational center for the beauty service industry.

Also, through the Expo, the Chungcheongbuk-do plans to introduce lots of domestic cosmetics and beauty brands, which have stood under the shadows of some global brands so far, and play a pivotal role as an outpost of K-Beauty, a unique cultural trend of Korean cosmetics and beauty.

Here is introduction of each zone of the Expo, showing everything from the origin of K-Beauty to the modern cosmetics and beauty world fused with cutting-edge science and technologies such as BT, IT and NT.

Your five senses being satisfied while seeing, hearing, enjoying and experiencing in five zones

The Expo is composed of five zones; welcoming site, themed site, industry site, experience site and communication area.

Welcoming Area

Just after passing the entrance, you can find five pine trees and “Osong Five brothers and sisters,” the Expo’s official characters, welcoming all of you. If you are not sure which way you should go first, please ask the information desks ready to answer your questions in many places.

Themed Area

World Beauty Pavilion: You can find the value of beauty expressed in different ways depending on time and geographical location. This place shows the history of cosmetics through beautiful persons from the eastern and western worlds. Especially, it provides with three-dimensional images of the secret makeup techniques used by Hwang Jin-i, Shin Saimdang and Queen Inhyeon, known as beautiful women in Korea’s Joseon Dynasty era. Through Korean cosmetics’ 100-year history, you will be able to find the excellence of K-Beauty following the Korean Wave and K-Pop.

Beauty Innovation Pavilion: This place introduces cutting-edge bio and science technologies that deter the aging process and keep the skin young. In particular, you can meet the cosmetics and beauty industries’ future vision that Osong offers with a fusion of its advanced technologies in the bio and medical fields and its neighboring Ochang’s nano and information technologies. You will have opportunities of checking your skin conditions on your own.

Industry Area

Cosmetic Industry Pavilion: Cosmetic companies from home and abroad exhibit their major and new products. This is an industrial hall where B2B transactions can be made. About 2000 domestic and foreign buyers are participating for business.

Beauty Industry Pavilion: Domestic and foreign manufacturers of beauty supplies exhibit their major and new products. This is another industrial hall where B2B and B2C transactions can be made. About 2000 buyers from many countries are participating for business. Beauty educational organizations, associations, groups and research institutes are having exhibition booths as well.

Beauty Market: Here are brand shops selling foreign and domestic cosmetic products and beauty supplies. You can try the products for comparison and purchase them at a dis-



counted price.

Competition: About 10,000 professionals and students join to compete in the areas of hair, makeup, nail art and skin care. You can enjoy the beauty shows where native and foreign experts boast their skills.

Academic Conference: Five international conferences including ISO/TC 217 Working Group Conference and nine local conferences are scheduled during the Expo period. The academic conferences, with more than 300 experts in cosmetics and beauty invited from 20 countries, will boost the Expo's international status.

Experience Area

Healing Therapy Pavilion: The main culprit of rough skin, wrinkles and blemishes is stress! You can experience healing beauty with phytoncides from the pine tree forest, music, massage, light and dark, and water.

Beauty Experience Pavilion: A total of 13 booths provide opportunities of experiencing color makeup, nail art, tattoos and hair styling. You can directly consult professionals about your skin, scalp and hair style. Also, there is space for children's beauty experience as well as for job experience to become a cosmetics developer, a makeup artist, a hair designer, and the like.

Korea Culture Pavilion: This place introduces the beauty of Korea created by the 5,000-year-old Korean civilization and culture. You can understand the underlying power of Korea, which has grown to a nation of K-Pop, K-Beauty and advanced IT, through its traditional housing, daily life tools, nature and ancestors' way of living.

World Doll Pavilion: About 600 dolls wearing 90 nations' traditional clothes are exhibited, showing each nation's unique beauty well. Song Gi-min, the former president of the Jeung-

pyeong Culture Center, collected those dolls while travelling all over the world, and gladly lend them for the Expo.


Communication Area

Outside the Expo are a large flower garden and a poppy garden, and inside the Expo is a British garden. There are one main restaurant, two cafeterias, snack bars and beverage stands. Lunch box carriers can have lunch under the canopies. In the main stage hall, you can enjoy the theme performances as well as the opening and closing ceremonies.

New Hub of the World's Cosmetics and Beauty Industries, Hub of Transportation

The Expo venue Osong located in Chungcheongbuk-do is known for the largest industrial cluster of the bio and medical organizations in Northeast Asia, including Osong Biotechopolis, the nation's only bio-industry complex; Osong High-Tech Medical Complex; Korea Food & Drug Administration; and six government-run bio-industry institutions. Osong is the nation's only place where research and development, manufacturing, and administrative support are all possible in one location.

Osong is only five minutes away from the Osong Station, the junction of the KTX Gyeongbu line and Honam line. It is easily accessible from anywhere in the nation by KTX and the national railways. It is also close to Cheongju International Airport and seven national highways. Indeed, Osong is the hub of transportation, well-connected nationally and internationally.

Through its successful hosting of the Expo, the Chungcheongbuk-do expects that the world citizens will enjoy K-Beauty and Osong will emerge as the new hub of the world's cosmetics and beauty industries. 

Polychar 21

Promoting “Green Chemistry”

The World Forum on Advanced Materials to be held in Korea, provides an opportunity to meet green chemistry-based polymer technologies

The Polychar 21 World Forum on Advanced Materials will be held at the Kim Dae-jung Convention Center in Gwangju, Korea hosted by Polymer Society of Korea, Chosun University and Gwangju city.

Professionals from 45 membership countries worldwide will participate in the event. They will discuss cooperation and research related to the International Union of Pure and Applied Chemistry (IUPAC) and education regarding polymer science.

Founded as a non-profit non-government group in 1919, the IUPAC is an international academic federation with great prestige and reputation. It is best known for its work on standardizing nomenclature, denomination, notation and the periodic table in chemistry. It has a general meeting and science conference every two years.

Korea will host the Polychar 21 World Forum on Advanced Materials, ahead of the World Hydrogen Energy Conference (WHEC) 2014. This will be the first time Korea has hosted an international science conference. Polychar 21 will be a good chance for Korea to pave the way as a base in the new and renewable energy industry and to experience source technologies in the polymer pure chemistry field. It will contribute significantly to domestic research and development (R&D) activities.

This forum started in 1992 and will celebrate its 21st event this year in Korea. It covers overall polymer science and engineering. It features 45 membership countries and the IUPAC is its official sponsor.

Just a day before the forum begins, a short-term educational program is being held for global graduate school students in

the polymer field. This 9-hour-long class will include debates among students, with all expenses covered by the IUPAC.

This program is followed by three sessions that include science presentations and debates. The forum will also recognize distinguished scientists who have made outstanding contributions to the advancement of polymer science, and award them with various prizes, including the Flory Polymer Research Prize, the International POLYCHAR Materials Science Prize, and the Young Scientist Prize.

“I am very proud because the globally-renowned Polychar forum is held in Korea. This represents our nation’s upgraded position in global science establishment. In particular, the environment-friendly optical and automobile fields are among the City of Gwangju’s strategic industries, and they are closely related to the development of polymer science technologies. I expect this forum will contribute to building worldwide networks for the technologies and promoting international cooperation,” said the forum’s Chairman Jo Byung-wook, Professor at Chosun University.

The major theme of Polychar 21 is “Green Chemistry.” There will be special focus on presentations and debates on environment-friendly chemical materials and related science technologies. They will create a big synergy effect, along with the environment-friendly new and renewable energy fair “SWEET 2013,” which will be held in conjunction with Polychar 21.

Chairman Jo urged many domestic research institutes and groups to actively participate in the forum, saying, “You can hear global experts’ opinions on recent trends in the development of technologies for green chemistry-based polymer



Chosun University

materials and future outlooks. In addition, this forum will be a good chance to introduce related Korean companies and build global networks.”

It is true that the level of Korean polymer science and technologies is nearing that of advanced nations’. Nevertheless, in order to strengthen the backbone of the export-driven Korean economy, we need to make intensive efforts to foster strategic fields that have competitive power in the global market, big ripple effects on all of the upstream and downstream industries, and big potential for growth.


Most of all, it is important to expand support for the development of technologies for cutting-edge polymer chemicals needed in the IT industry, an area where Korea has strong competence in the global market. However, the truth is that our IT industry depends mostly on imports to supply polymer materials like semiconductor, LCD, LED and graphene.

Experts advise that we have secured a certain extent of basic technologies but still need the government’s intensive

support for the commercialization of such technologies.

“We need a strategic approach, more than anything else. The government should figure out our exact status and adopt the most appropriate policies. For the advancement of polymer science technologies, industries and colleges should enhance their capacity for technological innovation, and the government should provide a mechanism to connect industries and colleges and strategic support for them,” emphasized Chairman Jo.

Another important task is to choose strategic fields from a future-oriented point of view and build intensive, wide-ranging support systems for them. In this regard, experts say, related laws and regulations need to be reformed in order to change the incentive structure of many colleges.

At the moment, the international polymer society is working on chemical approaches to adhesive polymer materials for medical purposes. In particular, researchers are concentrating on a variety of surgical suture materials and drug delivery materials. 

Welcome to Polychar,

On behalf of the organizing committee, I am very happy to welcome you to Polychar 21 (<http://polychar21-korea.org>) to be held on March 11 (Mon) to 15 (Fri), 2013 in the city of Gwangju, Korea. The conference venue will be at Kimdaejung Convention Center, located not far from the city center.

Due to some unexpected difficulties, we have had to change the originally planned conference venue and date (from Daegu, March 18-22 to Gwangju, March 11-15), which we hope will not hinder your intention to participate in the conference.

Polychar is part of the annual conference of the World Forum on Advanced Polymers and Materials, and which has been held for the past 20 years around the world: USA (1992-2003), Portugal (2004), Singapore (2005), Japan (2006), Brazil (2007), India (2008), France (2009), Germany (2010), Nepal (2011), and Croatia (2012).

Polychar 21 is a IUPAC sponsored conference, and which will provide an international forum for new discoveries, research collaboration and networking, and dissemination of recent scientific advances. The conference includes Plenary, Keynote and presentations, covering new synthetic methods, functional polymers, and polymer physics and engineering. In addition, as a part of the conference, there will be a full day special education program on Polymer Characterization and which will feature lectures by world renowned scientists, and for which we plan to invite many young scientists from economically disadvantaged regions of the world.

Polychar 21 will be held in conjunction with the SWEET 2013 Exhibition hosted by Gwangju city and, thus, will

focus on green polymer science and technology related to sustainable development. The conference theme, “Green Polymer Science and Technology for a Healthy, Sustainable World”, encompasses the critical and most important issues facing our global society.

We plan to have a special symposium on Green Polymer Science and Technology.

Gwangju is blessed with beautiful surroundings and is famous for its history and art heritage. The world famous Buddhist temple, Songkwangsa, is located nearby. There are ample sites and places you and your accompanying person(s) can visit to learn more about Korea’s culture and natural beauty.

On behalf of the Organizing Committee of Polychar 21, I would like to invite you to Gwangju to participate in Polychar 21 and look forward to seeing you all in Korea, March 2013.

Byung-Wook Jo

*Vice Chairman, Organizing Committee of Polychar 21
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Treatment of Obesity and Diabetes

Korean Researchers Discovered the Breakthrough

When a person's metabolism does not go well, his or her body sends a warning signal in the form of obesity or diabetes. Cells in the human body inhibit the consumption of energy when it is short to control metabolic activities. Once the mechanism goes awry, metabolic diseases occur such as diabetes and obesity. AMP-activated kinase (AMPK) protein, which can be compared to an energy sensor in the cell that is activated when the cell starves, is involved in the process. Metabolic diseases like obesity, diabetes and a fatty liver can be dealt with if the protein is activated artificially.

Professor Park Chul-seung and his

research team at the Gwangju Institute of Science and Technology have recently found out that a protein called cereblon combines directly with AMPK protein to prevent a metabolic disorder. He said that the diseases can be controlled by AMPK being artificially activated through the inhibition of cereblon.

AMPK detects the material of AMP, which increases when energy in the human body is not enough, and controls the consumption of it temporarily while producing more of it. AMPK is one of the core enzymes whose vitality decreases in the presence of obesity, diabetes, etc.

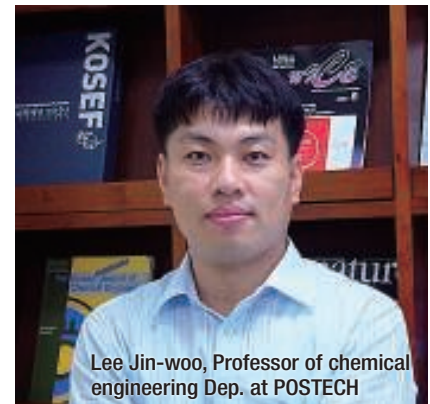
The research team discovered at this time that cereblon is a suppressor of AMPK. Specifically, it found out that AMPK's vitality is low when a high-fat diet is taken but it increases even under the same conditions once cereblon is

removed, accelerating sugar absorption and fat oxidation to reduce the blood sugar level and body fat.

"If cereblon itself or its bond with AMPK is inhibited, AMPK can be activated artificially," said the professor, adding, "The research outcome is expected to contribute greatly to the prevention and treatment of different metabolic diseases."

Smartphone Batteries

Technology for Twice Longer Running Batteries Developed



Lee Jin-woo, Professor of chemical engineering Dep. at POSTECH

Korean scientists recently developed technology to make smartphone batteries run two times longer than the existing ones.

Lee Jin-woo, Professor of Chemical Engineering Department at Pohang University of Science and Technology (POSTECH), Hwang Jong-kook, a doctoral student of the same department, Lee Kyu-tae, professor of Interdisciplinary School of Green Energy at Ulsan National Institute of Science and Technology (UNIST) and his research team announced on February 13 that they have succeeded in developing technology to sharply increase the running time of smartphone batteries by synthesizing Sn-embedded carbon-silica (CS) composites.

This technology makes it possible to shorten the charging time of lithium-ion batteries from three or four hours to one



Cho Sang-youn (left), Park Yong-geun

Microscope Technology

A Korean Student Takes World by Surprise

One undergraduate student at the Korea Advanced Institute of Science and Technology (KAIST) has been thrust into spotlight as his papers were published in the prestigious international academic journals twice.

KAIST announced on February 5 that a research on ultra-high optical resolution (dozens of nanometers) microscope led by physics professor Park Yong-geun and participated by Cho Sang-youn, a senior at the department of Chemical and Biomolecular Engineering, were published in "Scientific Report," one of world's leading research publications from the publishers of Nature.

This research will provide a new technology that potentially enables the microscope worth hundreds of thousands of won used in a middle school bio-experiment class to work like a hundreds of millions of won' worth ultra-high definition microscope.

The existing optical microscope recognizes an object whose radius is around 250nm only as a dot, but the new technology enables observation of an object that has a radius as small as 30nm.

It also enables identification of cell structure as well as the existence of virus and protein.

Cho's another paper on malaria research first authored by himself was published in "Trends in Biotechnology," a stablemate of "Cell," one of the world's most admired science magazines.

hour or less, and to double the running time.

This scientific achievement was unveiled through the “ACS Nano,” a well-renowned journal published by the American Chemical Society.

The researchers explained that the existing batteries use graphite as the cathode, but this material has a disadvantage of relatively low capacity.

So, much attention has been paid to tin (Sn) as an alternative. Sn’s capacity is almost twice as high as graphite, but Sn can destroy the electrode structure by swelling or contracting in the process of charging and discharging. Sn’s low stability and short life expectancy were obstacles to commercialization.

To solve this problem, the Korean scientists developed a facile “one-pot” synthetic method by which Sn can be confined in the CS composite structure as nano-wire or nano-particle forms. The scientists discovered this method prevents electrode attributes from degrading and stabilizes the performance.

The scientists think this method may be applicable in the renewable energy field, too.

Professor Lee Jin-woo said, “We will develop this method even further to make ten times longer running batteries.”

Electricity Generation Technology Developed with One Gram of Water!

For the first time in the world, a domestic university research team has successfully developed a new technology that enables electricity generation with only one gram of water.

Pusan National University announced on February 13 that a research team led by physics professor Park Hyuk-kyu (photo) had successfully implemented the world’s first electricity generation technology using a very tiny amount of water.

The technology, which enables lighting six LED lamps simultaneously using

Biomedical Imaging Technology

Tumor Cells-Targeted High-Precision Imaging Technology Developed

Science has opened a new way of high-precision diagnosis and treatment of deadly diseases such as cancer.

The Nanoparticle Research Center at Institute for Basic Science (IBS) announced on February 18 that Professor Hyun Taek-hwan’s team has developed high-resolution biomedical imaging technology after their 7-year-long research efforts. This technology enables to look into diseased tissue at a 1,000 times higher resolution than Magnetic Resonance Imaging (MRI).

The biomedical industry proposed to apply semiconductor nanoparticles to diagnosis of human diseases in the late 1990s, but all efforts have failed due to semiconductor’s harmful elements. However, Professor Hyun’s team has succeeded in obtaining high-resolution biomedical images by synthesizing ZnS nanocrystals composed of zinc and sulfur, human body’s essential and non-toxic elements, instead of semiconductor nanoparticles.

Professor Hyun explained, “We made observations to the 1 μ m or 2 μ m scale in the laboratory. This is a much higher resolution than mm-scale MRI. If we can observe diseased tissue at a cellular level, we can precisely diagnose the extent of malignancy and metastasis, and offer the clear boundaries between normal tissue and diseased tissue.”

This achievement was published in the online edition of the “Nature Materials,” a globally renowned journal in the field of material engineering, as of February 18.



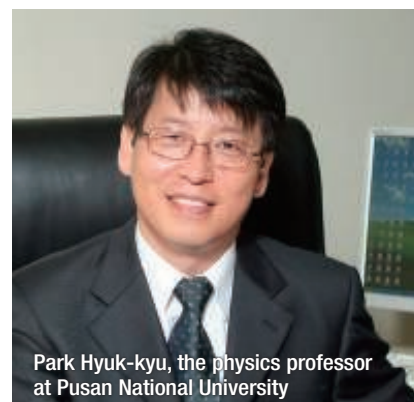
Professor Hyun Taek-hwan, the leader of IBS

one gram of water, was published in the latest issue of “Nature Communications,” a prestigious scientific journal published by the Nature Publishing Group.

The research team led by Park succeeded in converting mechanical energy into electrical energy using induced current generated through a change in electrical capacity of electric double layer capacitor (EDLC) formed between water and solid matter.

Park said, “Scientists had long been aware of the fact that the contact area between water and solid matter consists of layers of charge, but had trouble generating electricity because they didn’t understand exactly how such things happened,” adding, “Recently so-called

energy harvesting, which converts the energy commonly left unused around us such as vibration, noise, human movement, waste heat at factories, and light



Park Hyuk-kyu, the physics professor at Pusan National University

into electrical energy, is grabbing keen attention worldwide. The new technology is a kind of energy harvesting using commonplace object which is water.”

He also explained that, “If we fit an equipment created based on this technology to parts of the human body such as the sole of a shoe, moving arms, constantly beating heart muscles, it could continuously provide electricity to small electronic devices like portable cell-phones.”

Kynamro Case

World-Class Korean Technology, Amazing!

Korea Institute of Toxicology (KIT) said on February 6 that a hypercholesterolemia treatment supported by its non-clinical test technology has recently got sales approval from the US Food and Drug Administration (FDA).

Kynamro, developed by US-based ISIS Pharmaceuticals, is an oligo nucleotide anti-sense (ASO) new drug for hypercholesterolemia. That cures the disease by shutting off the specific genes that cause it.

For the FDA approval, ISIS had some important tests conducted by KIT on a contract basis; safety pharmacology tests for respiratory and central nervous systems, and general toxicity tests using rodents.

It appears that the success of Kynamro has been backed by KIT's world-class technology in non-clinical tests for ASO drugs. In addition, KIT now proceeds with another non-clinical contract researches with some global oligo nucleotide pharmaceutical companies, utilizing its experience in non-clinical tests for more than 200 ASO drugs.

“The Kynamro case will make it possible for KIT to position itself as a world-class non-clinical contract research organization. And it has been directly evidenced that the domestic technology can contribute to development of global new drugs,” said Lee Sang-joon, President of KIT.



Cho Si-haeng, Chief Technology Officer of AhnLab

AhnLab

Acquiring Patents for Technology to Prevent Personal Data Leaks

AhnLab said on February 20 that it has acquired patent rights to the technology for “TrusLine,” a new security solution dedicated to industrial systems, at home and abroad.

TrusLine keeps the system in a normal condition by blocking malfunctions or intrusion of malicious codes. This solution ensures stable operation of the point-of-sale (POS) systems at department stores or convenience stores and of the manufacturing lines in semiconductor or automobile industries. It has been supplied to Samsung Electronics and LG Electronics now.

With respect to TrusLine, AhnLab has recently acquired patent rights to the technology to detect and block the so-called “Address Resolution Protocol (ARP) spoofing,” a technique of stealing personal information. This technology compares the system address information and ARP spoofing records on a continual basis, so it can proactively respond even when the malicious codes or execution file names keep changing themselves.

ARP spoofing is a technique whereby an attacker can forge other's IP address and network information, intercept data traffics between PC and server, and steal personal information such as ID, password and financial information from the traffics.

“ARP spoofing is a major hacking technique of stealing personal information. Our patented technology will help many kinds of industries effectively block information leaks through POS systems or production lines,” said Cho Si-haeng, Chief Technology Officer of AhnLab.


Hyundai Heavy Industries

Coming into Spotlight with KSLV-1 Launch

Hyundai Heavy Industries and its technological strength are drawing the attention of many with the Korea Space Launch Vehicle-1 (KSLV-1) having been launched successfully.

Back in February 2007, the heavy industry company had won the contract for the construction of the launch pad from the Korea Aerospace Research Institute. The company proved its technological superiority by applying its self-developed technologies to more than 75% of the entire process.

It successfully completed the launch pad and site at the Naro Space Center

four years ago and was extolled by its Russian counterpart that participated in the technical support. It was also offered by the Russian organization to take part in another launch pad construction project in Russia as well. 



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Time To Know (T2K)

Aiming To Revolutionize the Classroom

Israeli education system developer has unveiled Smart Learning (S-learning) which becomes an important new paradigm in learning today

S-learning provides learners with a convenient communication environment and rich resources. However, the existing-learning infrastructure is still not complete. It does not allocate necessary computing resources for s-learning system dynamically, and has difficulty interfacing and sharing data with other systems. Time To Know (T2K), an enigmatic Israeli enterprise believes their cloud computing method, which supports resource management and provides the necessary foundation for the integration of platform and technology, will resolve and enrich such problems and areas.

BK interviewed Moshe Egert, CEO of T2K, to find out more about their education philosophy of integrating the cloud based smart learning system;

What you do with T2K is, of course, what we really want to know. But before that, could you please tell us more about yourself, such as personal background, career achievements?

I spent the last 20 years working for various Israeli hi-tech companies, 15 of those years with Mercury, one of Israel's



most successful hi-tech companies, and which was acquired by HP (Hewlett Packard) for US\$5 billion. In my last role at Mercury, I was President of Mercury EMEA (Europe, Middle East, and Africa), and before that I worked in various management positions in R&D, Business development and sales. In addition to working at Mercury, I served as President of the Enterprise Division at NICE Systems (NASDAQ:NICE), a world leader in customer interaction management solutions.

Please introduce T2K and the major features of your educational system, along with your management philosophy.

T2K was founded with the aim of revolutionizing the education system. The current system, which we see today in most of the modern world, was designed in the 19th century. The classroom hasn't really changed for over 200 years. Kids, on the other hand, have changed a lot. Our children are living in a digital world: they communicate via Facebook and Twitter; they use Smartphones; they see movies in 3D. Yet when they go to school, it is as if they enter a time machine and travel back 200 years. In my view, this situation needs to change, and T2K does just that by introducing 21st-century technology into the classroom.

Is there any specific reason T2K selected Korea as the third country after the US and Singapore to introduce its business philosophy in education and teaching methodology? And what have been the responses of these other countries to your educational system?

In order to maximize the benefits of T2K's new teaching approach, a country has to be progressive in two areas: It has to have an ambitious approach toward the education of its children, and also access to technology, mainly with regard to computers and Internet connectivity. Needless to say, Korea is one of the world leaders in both. We see Korea as one of the most significant countries in the world when it comes to education. Korea has been ranked in the top three positions in PISA tests for the last 10 years and is ranked the second largest market for English



Moshe Egert, the CEO of Time to Know



studies around the world, right after the U.S. We believe that Korea will be the gateway for T2K's English program in Asia and we know that our program can make a significant change in Korea with respect to English studies.

The cramming method of teaching is one of the major problems that the Korean education has. How do you differentiate the curriculum of T2K from the Korean one? And how can you assure this digital based curriculum can overcome the drawbacks of the Korean education system?

The idea behind T2K is to develop what the education world calls "21st Century Skills," which include critical thinking and problem solving, communication, collaboration, creativity and innovation. Instead of simply memorizing data or practicing and practicing until the student is exhausted, we believe that we should give students the tools to approach various problems and find different ways and strategies to solve those problems. This approach to learning and working in all spheres of life in Israel is one of the reasons it has become a "start-up nation" with the largest number of start-up companies per capita. I strongly believe that the methodology we provide will enable students in Korea to develop the multi-dimensional abilities that global citizens require in the 21st century.

The educational environment could be different by country depending on its traditional values and pressing needs. How will you cope with any possible hurdles in Korea because of such differences?

This is an excellent question and it relates to our strategy in launching our solution in various countries. We base our strategy on working with local partners. We believe that cooperation with a strong local company that understands the country's educational challenges is a key factor to success. We use




Chae Chang-whan, T2K Korea CEO (photo), who graduated from Seoul National University and holds a JD & MBA from the Univ. of Wisconsin in Madison said, "Time to Know (T2K) is recognized as quite remarkable even in Israel, which has lots of innovative venture start-

ups. In T2K, information technology and pedagogy are felicitously balanced, and Jewish thoughts are melted into the overall composition of contents and systems. T2K is categorized as a Digital Teach Platform (DTP), quite different from eBook or Learning Management System (LMS). DTP is still unfamiliar to many Korean people, but teachers can effectively teach students using DTP. It is a kind of platform that makes it possible to utilize one-to-one computing. T2K is the only commercialized product in the territory of DTP both at home and abroad. Many Israeli and American schools have given lessons using T2K for the past three years. As a result, it has been objectively proved that students can make astonishing improvements in their performance and attitude by using the T2K approach."

He evaluated the current problem of Korean education market and suggested, "In Korea, students still compete with one another to enter a better college, and educational establishments generally give test-oriented instructions to young people. That has caused a lot of harmful side effects. And it will weaken the competitiveness of Korean people in the long run. The T2K approach is based on many educational values, such as 'learning should be enjoyable' and 'learning should be linked with many aspects of daily life,' which are also in the same orbit as the Korean government's educational policy direction. Regardless of any changes in government policy, we will keep moving to foster human resources needed in the 21st century."

a similar method in each of our targeted markets. In the U.S., for example, we are partnering with McGraw-Hill, one of the largest publishers in North America, which uses our digital platform and content to teach English and Math in schools all around the U.S.

As CEO of T2K, could you please tell us your management goal as well as business plan and direction in 2013?

I expect us to continue to lead the educational revolution by introducing smart teaching platforms and smart digital interactive content in both private and public education sectors around the world. 

Power Generation

Paying Increasing Attention to Overseas Markets

It is analyzed that rising yen-dollar exchange rates are not giving a great impact on Korean industries, just hitting small-scale exporters

Subsidiaries of the Korea Electric Power Corporation (KEPCO) are flocking to overseas markets one after another, trying to compensate for the limited growth of the domestic power generation market abroad. As recently as several years ago, only a few Korean power generation companies were found in the global market, but the number has been rapidly increasing.

For example, Korea Western Power has won a series of international contracts lately, including one to build a gas combined cycle power plant in Myanmar and a US\$1 billion-worth concession agreement for a hydroelectric power station in Xe Namnoy, Laos. Korea South-East Power, as well, has signed a contract with SK Engineering & Construction and the Turkish government earlier this year to set up an independent power plant at a cost of US\$2 billion. The corporation's overseas business unit is gearing up to process sales of six trillion won by 2020.

Korea East-West Power is also currently engaged in electricity generation projects in no less than 14 countries. In addition, it has recently signed export agent contracts with power generation equipment suppliers in four Southeast Asian countries in an attempt to provide more support to small firms in

the industry.

Not to be left out, on October 18 last year Korea Midland Power held a completion ceremony on Java Island, Indonesia for a Cirebon Coal-fired Power Plant, which is the first large-scale coal-fired independent power plant built outside Korea by a Korean company. Korea Midland Power is anticipating that the export of the technology will result in profits of at least US\$1 billion.

Korea Southern Power is also thinking of the overseas power generation business as one of its future growth drivers. At present, it is in charge of the repair and maintenance of a 373MW-capacity combined cycle power station in Al Qatrana, Jordan. It is planning to take part in more such projects abroad, building on the business know-how and experience it gains from this project.

"From this year on, power generation companies have to take care of their financial structures on their own, which is quite a burden for them," said an industry insider. "It seems that they will be further striving to open up global markets, out of the already saturated domestic market, to deal with the burden more effectively."

Electricity generation companies in the private sector are following the exact same trend these days. One example is POSCO Energy, a daughter company of POSCO. It has obtained five orders over the past two years, including those for a 300MW-capacity photovoltaic power plant in the United States, a 1,200MW coal-fired station in Vietnam, and a 200MW by-product and 600MW coal power plant in Indonesia. Daewoo International is particularly distinguishing itself in Africa, where it concluded an MOU with one of the largest companies in Kenya and an agreement worth US\$1 billion to construct a combined cycle power station in Algeria.

Strengthening Partnership with Construction Companies for Joint Market Penetration

One of the most interesting aspects of the global market penetration of Korean power companies is the joint participation of construction companies in overseas power generation projects. An increasing number of builders are taking part in such projects as consortium members, instead of participating



373MW class Al Qatrana gas-fired combined-cycle power plant in Jordan was constructed by KEPCO

in international EPC tenders as a single entity. The new trends of participation can be divided roughly into two types: equity investment and bidding-based contracting.

Examples of the former include the Xe Namnoy project. During its early days in 2005, SK Engineering & Construction and Korea Western Power invested 26% and 25% of the shares to form a consortium, respectively. Not only did SK E&C get the construction rights estimated at 750 billion won through this equity investment, it is also entitled to future operating profits. Hyundai Engineering & Construction is going to make a similar type of investment in a 500MW gas combined cycle power station to be built in Myanmar by Korea Western Power, as well.

Meanwhile, the Cirebon project is one of the instances of bidding participation for overseas business cooperation. Doosan Heavy Industries & Construction joined the undertaking as only a partner builder, and obtained orders worth US\$600 million in total. In the project to build a 270MW coal-fired power plant that is underway in Ramada, India, in which Korea Southern Power has a 49% share, a tender is scheduled soon for the selection of the builder as well.

This type of business cooperation is especially conspicuous in the field of independent power plant (IPP) construction. One of its advantages is that KEPCO or its subsidiary, as a developer, can partner with one or more domestic builders with advanced construction quality and technologies, while construction firms can obtain overseas orders with greater ease. The government is also encouraging the establishment of consortiums by domestic companies.

Lotte Engineering & Construction has participated in the IPP-3 diesel power plant project in Jordan as the EPC builder. The project is led by KEPCO, and KEPCO KPS is slated to maintain the management rights for 25 years starting from the day of completion. Lotte has joined the state-run power company's Al Qatrana project as a consortium member as well. As a member of the KEPCO-Sumitomo Consortium, Daewoo E&C has been constructing an S3 Gas-fired Combined Cycle Power Plant in Shuweihat, UAE since last year, while discussing more IPP projects with KEPCO in the Dominican Republic, Chile, and Croatia.

Samsung Engineering has also taken part in the construction of the Norte 2 Gas-fired Combined Cycle Power Plant in Mexico with KEPCO as its EPC builder. SK E&C and GS E&C are mulling over joining Korea Western Power's thermal power generation project in Takalar, Indonesia. According to industry sources, the subsidiary is trying to persuade the two to make equity investments, beyond participating as constructors, in the first overseas development project led by a Korean power generation company. SK E&C, in fact, has already formed a consortium with Korea Western Power through equity investment in the Xe Namnoy project.

"With Chinese firms increasingly entering the EPC market by means of price dumping, more and more overseas plant



construction projects are likely to take the form of IPP," said a construction industry expert, continuing, "Under the circumstances, it will be more frequent that builders join global projects in conjunction with KEPCO and its subsidiaries."

Another expert echoed by saying, "It is true that equity investment incurs some financial burden in the early stage, but it is not entirely unfavorable for construction companies if long-term profitability is taken into account. As a matter of fact, there have been some cases in which a construction firm first made a proposition to set up a consortium. It is likely that business cooperation based on equity investment will increase down the road with the IPP sector gaining ground the world over."

Risks Remain to Be Dealt With

As of last year, KEPCO's overseas power generation sales were approximately 800 billion won, and the total overseas sales, including those from resources development and power transmission and distribution, are almost three times the amount. Although the figure is just 5% of the corporation's gross annual sales, it is currently making great efforts to increase the ratio, investing about 1.5 trillion won in its overseas power generation business alone.

KEPCO is planning on the construction of new power stations and the replacement of obsolete equipment in a bid to record overseas sales of 47 trillion won and a sales ratio of 40% by 2020. Of course, there are still some hurdles to surmount. Most power generation projects are and will be in progress in developing countries, not developed nations, and therefore it would be well-advised to pay close attention to public safety. Additionally, an unstable governmental situation could put a sudden halt to projects indefinitely in the event of regime change. "In-house consultants are a must for any company intending to participate in an overseas project," advised a company executive. "Risks, especially political ones, should be controlled appropriately, and thorough market research must be conducted before starting a project." ■

New & Renewable Energy Industry Moving Backward Only in Korea

It is estimated that the global new & renewable energy market will grow to US\$ 350 billion by 2020, accounting for 12% of the entire power generation market. However, Korea's new & renewable energy industry has moved downward since it reached the highest point in 2010. And chances are that this year will be the third year in a row that the nation's new & renewable energy industry has recorded a minus growth.

According to the estimation made by some financial investment companies, Korea Eximbank and US-based energy research firm CleanEdge on February 20, the size of the global new renewable energy market last year amounted to US\$ 260.8 billion.

They estimated the global new & renewable energy market will grow to US\$ 271.3 billion this year, a 4% increase year-on-year, and to US\$ 349.2 billion in 2020. Its proportion to the entire power generation market will also increase from 5.8% in 2010 to 11.8% in 2020 and to 17.7% in 2030.

New & renewable energy is sustainable clean energy such as solar power and wind power. Thanks to the recently-made technological advancement, unit costs for clean energy generation have fallen to a competitive level against those for fossil energy generation. Demand for clean energy is expanding not only in advanced nations but also in emerging economies.

However, the domestic new & renewable energy industry is moving in an opposite direction. It showed a rapid growth until 2010, but sales have been diminishing since then. The Korean new & renewable energy sales grew from 284 billion won in 2005 to 8,128 billion won in 2010, but then the trend changed the direction with annual sales of 7,884 billion won in 2011 and 7,489 billion in 2012. And, in 2013, another negative growth is estimated.

While domestic demand is still weak,



export is also in a slump. Korea's new & renewable energy industry recorded US\$ 4,308 million worth of exports in 2011, a 5% drop from US\$ 4,535 million in 2010. It is estimated that the nation's export of new & renewable energy and related goods amounted to US\$ 4,179 million in 2012, a 3% drop year-on-year.

Experts say this phenomenon has occurred because the oversupply is pulling down unit prices and the local companies are losing their ground against Chinese competitors.

Another Nuclear Power Plant Project in Middle East

Saudi Expected to Build Nuclear Power Plants with Korea

It has been found that Saudi Arabia, the world's largest petroleum producing country, is about to place an order for new nuclear power plants, considering Korean plant builders as the most potential candidates to partner with. Under the circumstances, the Korean government is anticipating that the situation will lead to another big news in the industry to follow the recent accomplishment in the United Arab Emirates.

According to industry sources, a project team made up of 40 or so key personnel of the Ministry of Knowledge Economy, the Korea Electric Power Corporation (KEPCO), Doosan Heavy Industries & Construction and so forth has recently held an information session in Saudi Arabia concerning the export

of nuclear power plant technology. They went there at the invitation of the King Abdullah City for Atomic and Renewable Energy (KA-CARE).

Saudi Arabia is planning to raise its atomic power output by 17 million kilowatts by 2030 by building 12 more large-scale nuclear power stations, each having an approximate capacity of 1.4 million kilowatts. Assuming each of them costs US\$5 billion, the market size reaches no less than US\$60 billion. The Saudi Arabian government is expected to place two orders within this year or until early next year at the latest to put them into operation from 2022.

The oil producing country is focusing its attention on nuclear energy in an attempt to meet its rapidly growing domestic power demand. Saudi Arabia is currently using 30% of its petroleum output, three million barrels or so, to generate electricity but the power demand is growing at a fast clip these days and the government is considering that the requirement will add up to eight million barrels per year in 2030. "For Saudi Arabia, it is more advantageous to generate electricity at a low cost by means of nuclear power and sell oil to other countries expensively," said a government official.

At present, Korea is engaged in nuclear power plant tenders in a number of countries, including Finland, Turkey, Vietnam and South Africa. Industry insiders are saying though that a construction project in Saudi Arabia will be far more lucrative than any of them because the Middle East nation's financial conditions are very robust and Korean companies are building nuclear power stations in the UAE, one of its neighboring countries. "Finland has strict regulations in force and Turkey's national finance is not that good, meaning Korean companies' chances are rather slim, but we don't have to be worried about Saudi Arabia's solvency," said an industry expert, continuing, "Still, we need to hold France in check in that the country is poised to get even with us for the power plant in the UAE."



Korea Hydro & Nuclear Power Submitted Bid for a Finnish Nuclear Plant

Korea Hydro & Nuclear Power Co (KHNP) has thrown its hat into the ring for a Finnish nuclear power plant project. This is the first time for the nation to make a bid in the nations that have highly advanced technologies in nuclear power generation.

KHNP said on February 1 that it has submitted a bid for construction of Olkiluoto Nuclear Power Plant Unit 4 ordered by Tesollisuuden Voima (TVO), a Finnish nuclear power generation company. It has offered to construct the APR1400 type, the same as those under construction at home and in the UAE, in a form of consortium with the nation's major nuclear technology companies; KEPCO E&C, Doosan Heavy Industries, KEPCO Nuclear Fuel (KNF), KEPCO Plant Service & Engineering (KPS), Samsung C&T and SK E&C.

TVO has run Nuclear Plant Unit 1 and 2 since the 1970s, and it has Unit 3 currently under construction by Franch-based nuclear energy company Areva. As for Unit 4, five nuclear reactor types are now competing; three kinds of pressurized water reactors (PWR) – APR1400 (KHNP, South Korea), EPR (Areva, France) and APWR (Mitsubishi, Japan) – and two kinds of boiling water reactors (BWR) – ABWR (Toshiba, Japan) and ESBWR (GE, the US & Hitachi, Japan).

TVO is expected to select a preferred bidder after comprehensive evaluation of technological and economic factors,

and then decide the final contractor.

Korea Western Power Targeting “US\$ 1 Billion in Offshore Sales with Capacity of 3,600 MW”

Korea Western Power Co (KOWEPO) held the company-wide “KOWEPO Global CEO Meeting” in the communication lounge of its headquarters on February 7.

To this meeting were KOWEPO's overseas employees invited from six foreign countries, including the heads of the offices in Laos and Indonesia and the subsidiaries in the US, Myanmar and Russia. They had a lively debate to analyze internal and external environments of each project, and make a decision on investment, required minimum ROI and the like.

KOWEPO's CEO Kim Moon-duk said, “I appreciate each of you working hard to lay the foundation for our business in the lands far away despite harsh conditions. This year, I hope you will maintain financial soundness through solid management and trigger the engine to position ourselves as the world's leading energy company.”

In the meantime, KOWEPO aims to achieve offshore sales of US\$ 1 billion with a combined capacity of 3,600 megawatt by 2020 through getting orders of overseas energy projects, including the combined cycle power project in Maharashtra, India (388 MW, progress rate 48.7%), the hydro



Kim Moon-duk, the CEO of KOWEPO

power project in Senamnoi, Laos (410 MW, construction started in 2012), the combined cycle power project in Yangon, Myanmar (500 MW, to be started in 2013) and the solar power project in Nevada, USA.


Energy Efficiency LG Chem's NCC Ranks the World's No. 1 Plant



LG Chem's naphtha cracking center (NCC) located in Yeosu, South Jeolla Province, got the top rating in the world for energy efficiency.

LG Chem said on February 15 that in a competitiveness survey conducted by Solomon Associates, a professional NCC consulting firm, on 115 NCC firms worldwide, the company topped the list in terms of energy efficiency.

NCC is a factory that produces basic ingredients for petrochemical products such as ethylene and propylene. The evaluation results show that NCC in Yeosu has an energy intensity of a mere 4,100kcal/kg, which means 4,100kcal is needed to produce 1kg of ethylene. Energy intensity is a core indicator of an NCC's level of technology: The lower the numbers, the lower the energy consumption and the higher the level of technology.

LG's energy intensity is 40 percent less than the industry average, which could be translated into 300 billion won worth of annual energy savings on the basis of an annual production of one million ton, according to the company's account. 

Samsung vs. Apple

Becoming Favorable to Samsung?



The US Court of Appeals for the Federal Circuit rejected Apple's request for injunction on Samsung Electronics' Galaxy Nexus on January 31 (local time). The court however did not reveal the specific reasons for the rejection. Under the circumstances, Samsung Electronics is expected to get the upper hand in its patent lawsuits against Apple.

In June last year, the District Court for the Northern District of California had accepted Apple's request for the same purpose, judging that Samsung's Google reference phone had infringed upon Apple's patents. However, four months later the court of appeals overturned the ruling in favor of Samsung Electronics, saying that there was no specific evidence as to the correlation between patent infringement and related damage. Apple raised an objection to the court immediately.

The US appeals court also rejected Apple's request for full appeals court reviews in relation to its bid for a permanent sales ban on some of Samsung Electronics' products.


According to Reuters and other foreign media on February 4 (local time), the Federal US Circuit Court of Appeals said that Apple's appeal will be deliberated by a three-judge panel.

Apple's appeal came after the lower court rejected its request for a permanent ban on Samsung phones in December last year. In its appeal, Apple requested nine-judge-panel full court reviews. However, the appeals court said that a three-judge panel would first consider the appeal and the full appeals court would not decide whether to hear the case until after that. Thus, Apple has failed to fast-track its bid for a sales ban on Samsung products.

In the meantime, the same appeals court rejected Apple's request for a sales ban on Samsung's Galaxy Nexus last month. That appeal case was applied for after the lower court annulled the decision to ban sales of Galaxy Nexus in October last year. The appeals court

didn't explain why the appeal was rejected.

In addition, the United States International Trade Commission (ITC) postponed the ruling of the patent lawsuit between Samsung Electronics and Apple to August 1 instead of March 27. ITC administrative judge Thomas Pender, who is in charge of the hearing, is expected to come up with a preliminary ruling in early April ahead of the final judgment.

Under the circumstances, Samsung Electronics is finding itself in a more favorable condition than before as the negative publicity regarding the previous ruling in favor of Apple is growing to blunt Apple's offensive. 

Consumer Loyalty

US Consumers More Loyal to Samsung than Apple

It has been found that Samsung Electronics beat Apple in a smartphone consumer loyalty survey recently conducted in the United States.

Forbes announced on February 5 (local time) that Samsung Electronics took the foremost place in the smartphone category of Brand Keys' 2013 Customer Loyalty Engagement Index, in which 49,000 Americans participated. Last year's winner Apple dropped to second spot, followed by LG Electronics, Nokia and Sony, Motorola, HTC and Blackberry.

In the laptop segment, Samsung Electronics shared the top spot with Apple. Following these Asus, Toshiba, Sony, Acer and HP. Samsung ranked number one in the flat-panel TV category.

"The survey results imply a great change," said Brand Keys founder Robert Passikoff, adding, "It is Samsung that is at the center of the change, making giant strides mainly in the smartphone industry."

In the meantime, Apple and Samsung Electronics also shared second spot in the tablet PC segment following Amazon, with fourth spot going to Barnes & Noble. Amazon's Kindle topped the list in the e-book reader segment, followed by Barnes & Noble's Nook and Apple's iPad.



Patent War

More Stunt Position against Infringements

It has been found that IBM, one of the world's largest non-practicing entities, has made phone calls and sent emails to small firms in Korea to urge them to pay license fees for the patents it owns. This is the first time that the American IT company made such demands to small and mid-size enterprises (SMEs) in Korea. Industry experts are saying that IBM, whose patent strategy was less high-handed than those of Apple and Nokia, is poised to further increase its offensive down the road.

It is said that IBM's recent aggressive move is because of the current situation in which the patent registration and maintenance fees are skyrocketing while the income from the patents such as royalties are on the decrease along with its sales. Its patent income was more than halved between 2008 and 2011 from US\$514 million to US\$211 million. The sales turned negative in 2012 as well after a slight increase in 2011.

"These days, patent trolls in possession of a large number of patents such as IBM are witnessing continuously increasing patent-related expenses and finding less and less room for R&D," said Shin Chun-sup, senior patent attorney at Jihae Patent & Law. He added, "It seems that IBM, due to the burden of swelling expenses, will follow the trend of reducing the number of new patent applications and concentrating on more profitable patents."

Meanwhile, a local chip maker Seoul Semiconductor (CEO Lee Jung-hoon) issued a patent infringement warning letter to one foreign Light Emitting Diode (LED) manufacturer. The letter says, "The Alternating Current (AC) LEDs produced and sold by you infringe on 'Acriche' patent." It is the first time that the company warned a company of patent violation relating to AC LED.

Acriche is the world's first Direct AC-driven LED without AC-DC converter developed by the Korean firm in 2005. One company official said, "In theory, LED lasts more than 50,000 hours, but converter falls far short of that, resulting in a shorter LED life," adding, "The virtue of Acriche is that it can last a long time with no need to use a converter."

Such a move indicates that Seoul Semiconductor has become more aggressive in protecting intellectual property (IP) rights including patent. With Global LED firms scrambling to develop AC LED, there is high potential for patent infringement. The Korean firm's patent library is massive: it holds about 200 patents relating only to AC LED.

Last year, Seoul Semiconductor ranked 10th in the IEE (Institute of Electrical and Electronics Engineers)'s Patent power 2012 ranking, a first among LED manufacturers. CEO Lee said, "It would be pretty hard to produce AC LED without violating one of our patents," and added "We will pay more attention for protecting patent right."



Businesses in Vietnam

Both Samsung and LG build factories in Vietnam

Samsung Electronics Vietnam (SEV) will have its second mobile phone production base in the nation's northern province of Thai Nguyen. SEV announced on February 7 that it has signed the land lease contract for total area of 50 km² with the management company of Yen Binh Industrial Zone in Thai Nguyen Province.

The Yen Binh factory land is even larger than the company's existing factory land in Bac Ninh Province, the largest in the world until now. Thus, this contract indicates that Samsung Electronics sees Vietnam as the ideal place for its largest investment. SEV's factory in Bac Ninh is producing about 150 million cell phones a year and has about 24,000 employees.

Now, Vietnam has emerged as the world's largest cell phone producer. Samsung hasn't officially unveiled the exact amount of investment in the Yen Binh factory. But sources said it will be about US\$ 700 million.

Samsung will also make additional investment, amounting to a total of US\$ 1.5 billion, in the existing Yen Phong factory in Bac Ninh by 2020.

Consequently, Samsung's combined investment in two Vietnamese factories is expected to be as much as about US\$ 2.2 billion.

Meanwhile, SEV became Vietnam's number one exporter last year recording US\$ 12.4 billion in exports. It account-



ed for more than 10% of the nation's total exports (US\$ 114,631 million). It is apparent that the company played a decisive role in the nation's first trade surplus in 20 years.

LG Electronics also builds home appliances factory in Vietnam. LG Electronics announced on February 17 that it invests US\$300 million in Hai Phong, a port city in northern Vietnam, to build a 400,000m²-wide home appliances factory by 2020.

The electronics giant has run similar factories in Hai Phong and Hung Yen but they are rather small in size and therefore it has had difficulties increasing the production volume. With the lease periods coming to an end, the company is planning to build an additional plant and run it in connection with the two.

About 100km away from the capital city of Hanoi, Hai Phong is the third largest city in Vietnam. LG is going to manufacture refrigerators, washing machines, air conditioners and so forth in its factory in Hai Phong. "We're setting up the new factory to secure more space and increase our production capacity, not to transfer the production base from China and other regions," said the company.

These days, Vietnam is rapidly increasing its popularity with Korean companies as a production base thanks to cheap and plentiful workforce. In earlier this month, Samsung Electronics has decided to build its new mobile phone manufacturing factory in Thai Nguyen in northern Vietnam at an investment of at least hundreds of billions of won. Samsung is already running the world's largest mobile phone factory in Bac Ninh, whose annual production capacity amounts to 150 million units.

Merge & Acquisition

Samsung Buys Stakes in Stylus-Maker Wacom

Samsung Electronics decided to nab stakes in the Japanese tablet company Wacom and to enhance cooperation. The Japanese firm, which produces tablets



and touch pens, also makes the stylus pens for Samsung's Galaxy Note devices.

According to the Japanese media and Samsung Electronics on January 31, Wacom announced that it had entered into a capital and business alliance agreement with Samsung Electronics. The Korean firm bought a 5 percent stake in Wacom, and Wacom decided to raise 5.3 billion yen (some 630 million won) for development of products to be supplied to Samsung Electronics and enhancement of their supply system.

The two companies also plan to further expand cooperation in a wide range of fields by either shortening the time taken to develop new products or broadening supply system in the smartphone and tablet field.

In particular, with the Korean firm increasingly adopting the S-pen as major features in its premium lines, strategic partnership between the two companies will likely be established in relevant fields down the line.

Battle between Samsung and LG Reconciling for Settlement of Patent Disputes

Samsung Display (CEO Kim Kinam) and LG Display (CEO Han Sangbum) are moving toward a peaceful settlement of their patent disputes. The companies are currently engaged in a total of seven civil and criminal lawsuits with regard to LCD and OLED display technologies.

The CEOs of both companies had a luncheon meeting on February 4 at the Palace Hotel in Seoul with Kim Jae-

hong, Assistant Minister for the Office of Industries of the Ministry of Knowledge Economy. Held by the ministry in the interest of mutual conciliation, the meeting was highly meaningful in that the two leaders of the global display industry met with each other to settle their disputes. There, they agreed to bury the hatchet with the entire world watching.

Many people in the industry and the government had expressed their concerns over the strife between the two as the patent disputes could deteriorate Korea's national competitiveness in the display industry, where global companies, including Chinese ones, are posing increasingly stiff competition.

Both companies did not mention whether and when to drop the suits on that day, though. However, they are expected to reach an agreement with each other in the near future through further negotiations since they agreed on the principle of settlement through conciliation.

The litigation had started back in April last year, when Samsung Display had denounced LG Display's and its own executive and staff members to the police for alleged technology theft. The litigation had expanded to include LCD as well as OLED technologies



Google in North Korea

Launching Map Service

Google has kicked off a map service covering North Korea in three weeks after chairman Eric Schmidt visited the country. Experts are saying that there might have been some kind of a deal between the two.

According to industry sources, Google launched a map service on January 29 (local time) showing even street names in Pyongyang. It shows various buildings in the city such as hotels, plazas, schools and hospitals. As in the case of the Google map services for other regions, users can view pictures and comments regarding the city. In the past, the Google Map had provided almost no information about North Korea.

Given that the country had avoided providing map information, the service is quite exceptional. It is Google's first service related to North Korea after the chairman's visit on January 7. The industry is watching closely what the search giant has to offer next.

Brand Value

Samsung Ranked World's 2nd Most Valuable Brand

Apple was chosen as the world's most valuable brand. And Samsung rapidly boosted its brand value, narrowing the gap with Apple.

UK-based brand valuation firm Brand Finance released the results of this year's brand valuation of 500 global leading companies on February 18 (local time). In the valuation, Apple is ranked first recording the highest brand value worth US\$ 87.3 billion.

Samsung is ranked second (US\$ 58.8 billion), followed by Google (US\$ 52.1 billion), Microsoft (US\$ 45.5 billion) and Wal-Mart (\$ 42.3 billion).

Samsung's brand value showed the highest growth rate among the top 5 brands. It increased 51% from a year ago, more than twice Apple's growth rate (24%). Google recorded a 10% rise,

Investment

Some Difference between Semiconductor and Display

In semiconductor industry, it is expected that major semiconductor companies in Korea will cut their investment this year. Under the circumstances, industry experts are saying that the entire market will become stagnant as their investment reduction is likely to have its impact on their partner firms.

For instance, SK Hynix's new capital expenditures for this year are estimated at below three trillion won, approximately 30% less than last year's 3.85 trillion won. It invested a lot of capital in the construction of M12 lines in 2012 but is planning on no production line expansion this year. Most of the new investment for 2013 is going to be spent on the maintenance of its existing production lines.

In fact, the company made the announcement on as early as January 30 during its conference call for the fourth quarter of 2012. The move has to do with the recent memory semiconductor market conditions. Last year, the market recorded a negative growth due to the declining demand for PCs and it is likely to continue this year as well.

Samsung Electronics is expected to follow the same investment trend. It made a new investment of 14 trillion won last year, setting up system LSI lines in Austin, Texas. However, the company is planning to focus more on system semiconductor than memory semiconductor business. The purpose is to concentrate its investment on non-memory semiconductor business, which has a larger room for growth, than in the memory semiconductor market that it is already dominating. Though it announced investment plans in January for years, it has yet to make public that for this year.

With the two giants trying to be on the safe side, the semiconductor market is forecast to contract significantly. Second- and third-tier vendors and suppliers are predicted to show weaker performance, too. "As a matter of fact, partner firms' business performance has deteriorated since the second half of last year due to SK Hynix's and Samsung Electronics' investment reduction," said an industry insider, adding, "It is likely that things won't get better this year as the two aren't planning to increase their investment."

In display industry, aggressive investments are made amid general economic recession. LG Display announced on February 18 that it decided at a board of directors meeting held on February 15 to invest 700 billion won in its M2 production lines to provide against the future growth of the global large-screen OLED TV market.

The M2 lines, located in LG Display's P9 plant in Paju City, Gyeonggi Province, perform deposition to produce up to 26,000 units of 8th-generation (2,200mm×2,500mm) WRGB OLED panels a month. The start of mass production is scheduled for the first half of next year.

The investment decision is to get the jump on competitors and further solidify its leadership in the OLED TV market. LG Display is planning to come up with unique products, such as super-large, ultra-HD and curved TVs, to take the initiative in the market.





Sohn Young-kwon, the President of Samsung Strategic Innovation Center

Samsung's Venturing

Investing US\$1.1 Billion for New Growth Engines

Samsung Electronics expands its strategic alliance with American companies through an M&A and R&D investment of at least one trillion won for several years down the road.

President Sohn Young-kwon, who is heading Samsung's Strategic Innovation Center, said at the press conference held

on February 4 (local time) in Menlo Park, Silicon Valley that the company would set up venture investment and global investment promotion funds worth US\$1.1 billion combined within years.

"We're expecting that there will be a seismic change and lots of opportunities in the IT industry for the upcoming five years with new trends like big data and cloud computing coming up," he remarked, adding, "Samsung will play a central role in the evolution." He continued, "The era of post-PC is on the horizon to make possible anything people imagine and Samsung will strive to continue its leadership in such a rapid change."

He also said that the number of connected devices would reach approximately 120 billion around the world by 2020 and his company would take the role of linking all of the connected devices by means of its advanced cloud computing systems and mobile technologies.

The Strategic Innovation Center established in Silicon Valley at this time is expected to lead the initiative to contribute to Samsung Electronics' ambitious goal of doubling its sales to 400 trillion won by 2020. The 6,600m²-wide Strategic Innovation Center has recently been set up in Sand Hill Road, Menlo Park in the vicinity of Stanford University. President Sohn was scouted in August last year.

Microsoft a 1% drop, and Wal-Mart a 10% rise in their respective brand value.

Brand Finance highlighted the fact that Samsung's brand value moved upward at a rapid pace. Actually, Samsung first joined the top 10 group last year. Brand Finance said, "Despite a raft of new product launches such as the new iPhone and iPad, Apple continued to lose ground to Samsung. And it was only its sheer size that helped Apple maintain its lead position over its smaller but more nimble South Korean rival." Apple's brand rating showed a slight drop from AAA+ to AAA.

"Brand is one of many intangible assets which drive profitable growth. Apple and Samsung are slugging it out for global brand supremacy and are vying with each other to create strong

'customer love' for their brands," said David Haigh, CEO of Brand Finance.

KT

Focusing on Digital Content Industry

KT achieved the highest sales in its history thanks to the strong performance of its non-telecom business units. The telecom operator announced its earnings for 2012 on February 1 and said that its sales added up to 23,790.3 billion won last year, 11.8% up from a year earlier. The operating profits, meanwhile, decreased 30.6% to 1,213.8 billion won as the profits of the wired communications segment dropped.

The explosive sales growth was

led by its non-telecom subsidiaries. BC Card, KT Skyclife and KT Rental increased their combined turnover by 32.4% year on year to 293 billion won. By business segment, the media and content sales surged by 33% from a year ago to 1,067.9 billion won. In particular, the IPTV business unit's additional revenue, including the paid content fees, increased more than 70% during the period.

However, the turnover of the wired telephone business went down by 11.3% as the number of subscribers and their usage dropped alike. The profits from wireless services decreased 0.8%, or 220 billion won, to 6,913.4 billion won, too.

Meanwhile, KT held a press conference on January 31 and announced that it raises funds worth 100 billion won for content business development. The news conference was attended by the top management of the company, including KT Media Hub CEO Kim Joo-sung.

The total amount is divided into an investment fund of 60 billion won and a loan fund for joint growth of 40 billion won. The former consists of 30 billion won for video contents, 15 billion for the new media sector covering games, e-learning and e-books, and 15 billion for the music content industry. The fund is managed by KT Media Hub.

Video contents benefitting from the fund are exposed on Olleh TV's PPVs. Educational games are going to be provided along with KT's products such as the Kibot and the KT Smart Home Pad. In the meantime, KT and the Industrial Bank of Korea invest 20 billion won each in the loan fund for joint growth. 



Making Use of CKD Export

Korean automakers are expanding CKD exports against trade barriers

Korean automakers are dealing with global trade protectionism by means of CKD, or complete knock down, exports. It is characterized by exporting semi knock down products and assembling them in each local market before selling.

According to industry sources, Korean automobile manufacturers' CKD exports are increasing rapidly these days. For GM Korea, the export amount increased more than 30% between 2009 and last year, from 958,033 units to 1,275,123 units. "The actual amount is larger than that because CKD exports cover only units including main auto parts such as engines and transmissions," said a GM Korea executive, adding, "The export amount is likely to continue rising mainly in emerging markets as GM Korea's auto parts are required for the manufacturing of models such as the Aveo, Malibu and Orlando."

The story is the same for Ssangyong Motors. Its CKD exports grew 103.3% between 2011 and 2012, from 720 units to 1,464 units. The company started large-scale CKD exports to India last year and is planning to expand this in Russia and Brazil from next year. To this end, Ssangyong Motors will build local manufacturing factories in Brazil and Russia within this year. At present, approximately 20% of its exports to Russia are on a CKD basis. The company aims to raise the percentage gradually until 2015.

In the meantime, Hyundai Motor Company and Kia Motors are using a two-track strategy, which involves increasing local production instead of CKD exports for flagship models, and stepping up CKD exports for others, including commercial vehicles. Hyundai



Amount of GM Korea's annual CKD exports

(Unit: cars)

2009	958,033
2010	1,090,921
2011	1,243,665
2012	1,275,123

Motor Company is currently manufacturing the Porter and some heavy-duty trucks on a CKD basis in countries including Ukraine and Ecuador. Kia Motors is employing the same method in Malaysia, Vietnam and so forth for models including the old Sportage, and Bongo truck. Hyundai and Kia are planning to manufacture small-scale commercial vehicles by the same method at the manufacturing facilities of Karsan, a Turkish commercial vehicle automaker, from next year.

The rising popularity of this type of

export is because it can reduce the high tariffs imposed when finished vehicles are exported. Nowadays, countries like Brazil and Russia are raising their tariffs on imported cars. Brazil increased the industrial product tax by 30% late last year. Russia, where the tariff on imported cars amounts to 40% of its price, is moving to increase the amount further.

One of the demerits of CKD exports is that its profitability is much lower than that of the export of fully built vehicles. It is for this reason that Hyundai is manufacturing its flagship products locally. "All in all, our ratio of CKD exports is on the decline these days," said the company, adding, "Local production can be more advantageous in that it brings more profits and we can perform quality management directly."

Still, there are some who voice opposing opinions. "CKD exports are indeed less helpful as far as profitability is concerned," said Ssangyong Motors president Lee Yu-il, "However, the export method leads to a higher sales volume and therefore there seems to be no problem in terms of total profits." **BR**

World's 5th-Largest Auto Manufacturer

Korea Keeps It for the Eighth Consecutive Year

It has been found that Korea ranked fifth in terms of automobile production volume for eight consecutive years.

According to the Korea Automobile Manufacturers Association's data, Korea manufactured 4.558 million units of cars last year, approximately 2.1% less than in 2011, to follow China, the United States, Japan and Germany. The volume is equivalent to 5.4% of the worldwide total for 2012. Around 1.41 million units of it were sold in Korea while the export volume amounted to 3.17 million to reach a new high.

In the meantime, China increased its production by 4.6% year on year to 19.272 million units in spite of the slowdown in the sector's growth and some of the major cities' car registration restriction. Its manufacturing quantity accounted for 22.8% of the global aggregate.

The volume increased by 19.3% from a year earlier for the United States with the economy recovering and the new local factories of Kia Motors and Volkswagen being put into operation. The output reached approximately 10.332 million, topping the 10 million unit mark for the first time since the financial crisis of 2007 and coming in second for the second consecutive year. It had been overtaken by Japan in 2010.

Japan's automobile production volume went up by 18.4% to 9.943 million



in 2012 whereas Germany's declined 10.5% to 5.649 million due to the economic recession in Europe.

Korea was followed by India (4.142 million units), Brazil (3.433 million), Mexico (3.001 million), Canada (2.464 million) and Thailand (2.454 million). Thailand joined the ranks of top 10 for the first time ever while Spain and France failed to put their names on the list in the wake of the European economic downturn.

The global total automobile production output increased 4.9% to 84.7 million units between 2011 and 2012 as the American and Japanese markets made a turnaround and the demand rose in emerging countries.

Hyundai and Kia Motors Group Set New Market Share Record Last Year

The combined global market share

of Hyundai Motor Company and Kia Motors added up to 8.8% last year to set a new record.

According to market research firm JD Power, Hyundai and Kia sold 4.392 million and 2.709 million units of cars in the retail car market last year, respectively, when the global total sales volume was approximately 80.892 million units. In particular, the two companies' combined market share amounted to 9.4% in the final quarter, 0.3% higher than the previous record set in Q2, 2011.

Their global market share has increased gradually for years. It was 6.1% in 2007 and rose to 6.4% in 2008, 7.8% in 2009, 8.1% in 2010 and 8.6% in 2011. The solid growth can be attributed to their strong performance in most of the global markets excluding Korea despite the worldwide recession and the industry's slowdown. They have recorded a sales growth rate of an average of 10% in most regional markets. In 2012, the global car market increased 5.2% in

Korean Automakers' Domestic Sales Stagnated in January



It has been found that domestic auto sales for January 2013 plummeted by 23% from a month earlier as the reduction of the individual consumption tax ended. The sales are expected to be stagnant during the first half of this year with the economic recession lingering.

According to industry sources, the five automakers in Korea sold a combined total of 104,377 units of

cars in January this year, 8.2% up year on year. The sales increase is attributed to the larger number of business days compared to the first month of 2012.

By company, Hyundai Motor Company and Kia Motors sold 50,211 and 36,250 units of vehicles in that month to record a 20.4% and 22.1% decrease, respectively. GM Korea's and SsangYong Motor Company's sales declined 29.7% and 24.8% each to 10,031 and 4,035, too. Renault Samsung's figure dropped 39.9% to 3,850 units.

The five companies' domestic and overseas sales added up to 756,831 units, increasing 22.3% when compared to the same month of the previous year. With the exception of Renault Samsung, the sales of which plummeted 60% year on year, the domestic sales and exports increased for all of the other four.



size whereas the growth rate for 2010 and 2011 had been 13.3% and 6.3%, respectively. Still, Hyundai and Kia succeeded in recording a higher-than-average growth rate.

In terms of shipments, Hyundai and Kia took the fifth spot last year by supplying 7.14 million units, followed by Toyota (9.75 million), GM (9.29 million), Volkswagen (9.07 million) and Renault Nissan (8.1 million).

Hyundai Mobis

Hit a Record 30 Trillion Won in Sales

Hyundai Mobis hit a record 30 trillion won in sales thanks to the brisk sales growth in overseas markets last year.

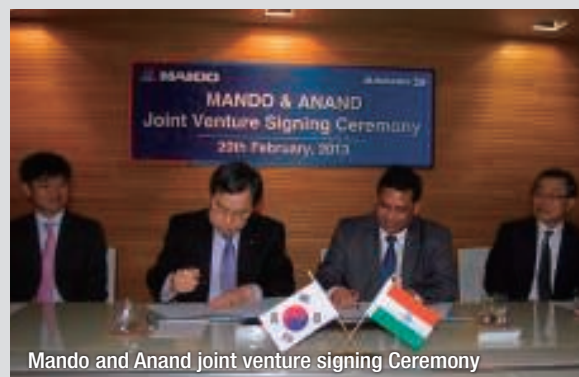
Hyundai Mobis (CEO Jun Ho-suck) said on January 31 that it recorded 30.789 trillion won in sales in 2012, a 17.1% increase year-on-year. The company's operating profit for the same period was 2.906 trillion won, up 10.2% from a year ago. It is the first time for the company to break the 30 trillion won sales record.

At the module sector, one of its key businesses, Hyundai Mobis increased sales by 15.1% on a year-on-year basis last year, amounting to 24.060 trillion won, due to the growth in overseas production of its major customers – Hyundai Motors and Kia Motors – and completion of its new production lines (Beijing 3 plant & Brazil plant). Especially, sales in North America showed

Mando

Merging Its Two Indian Subsidiaries, MIS & MIL

Korea's leading automobile parts supplier Mando announced on February 21 that it will merge its two Indian subsidiaries Mando India Steering (MIS) and Mando India Limited (MIL) to a new company Mando Automotive India Limited as of April 1, in a bid to more actively explore the Indian automobile parts market.



According to the merger agreement signed on February 20 (local time), MIL will be absorbed by MIS. Mando will take substantial responsibility for management of the new company with 71% ownership.


Through the merger, Mando plans to build the entire lineup of all products within one business entity and focus its marketing capacity on local makers like Tata and Mahindra as well as the existing clients like Hyundai Motor, GM and Nissan. The company expects to enhance the operational efficiency through integration of organizations, which will lead to cost-saving effect and increase in sales and profitability. Last year, MIS and MIL recorded a total of 12 billion rupees in sales (about 240 billion won), a 12% rise year-on-year. Now Mando aims to make the new company grow more than doubled within five years.

Mando said on the same day that it has recently signed a 176-billion-won contract to supply brake systems to Italy's Fiat. Under the contract, Fiat vehicles being produced in Europe and Brazil from 2014 will have Mando brakes. Besides, Mando has also been selected as a supplier of core parts by other European car makers such as BMW and Volkswagen, since it began with PSA (Peugeot-Citroen) and Renault in 2009.

the highest growth rate of 24.8%, followed by Europe (20.4%) and China (13.0%).



At the auto parts sector, Hyundai Mobis sold a total of 5.889 trillion won worth of products in 2012, a 9.2% rise from the previous year. Particularly, the Chinese market showed the most powerful sales growth of 33.6% year-on-year. China was followed by North America (18.8%) and Europe (5.1%).

However, despite the record-breaking sales performance, the company's operating profit margin was down 0.6% year-on-year to 9.4%. Its pre-tax profit and net profit were up 13.4% to 4.607 trillion won and up 17% to 3,542 trillion won, respectively. 

Ssangyong E&C

Facing Increasing Risks of Bankruptcy

Ssangyong Engineering and Construction, South Korea's No. 13 builder, is increasingly at risk of bankruptcy as it is suffering from capital erosion. Amidst such debacle, its largest shareholder, Korea Asset Management Corporation (KAMCO) decided to cut its losses in the Ssangyong business, fueling speculation that it started going after scapegoats following recovery of public fund.

In particular, all eyes are on new roles of the construction firm's creditors to whom the key to solving this issue was handed over by KAMCO.

According to the Financial Supervisory Service (FSS) on February 14, Ssangyong E&C posted a current net loss of 411.4 billion won last year, more than twice the amount it posted in 2011, which stood at 157 billion won. That year, the company went into the red affected by the global financial crisis of 2008 following years of profitable operations since 2004 when the company had successfully emerged from workout process. Accordingly, the company lost all of its 140 billion won capital as of late last year, thus falling into a state of complete capital erosion.

One financial industry official said, "The main culprit for sharp increase in Ssangyong's losses was the company's push to sell off unsold apartment units at a discount after KAMCO urged the company to secure liquidity in order to advance its sale."



Construction and financial industry experts predict that Ssangyong will need capital injection of at least 150 billion won in order to avoid capital erosion, which requires a debt-for-equity swap by the creditors. The Hong Kong fund VVL reportedly submitted a proposal to the company for the capital increase through third-party allocation currently under way. It says that in order to participate in a 300 billion won worth of capital increase, 350 billion won worth of debt-for-equity swap is required.

The creditors have long been demanding the largest shareholder provide funding for the construction firm, but the government-run enterprise has refused to do so, citing that "there's no regulatory ground." It should return the stake (38.75%), which the "Non-performing Asset Management Fund" holds in the builder, to the Financial Services Commission (FSC) in kind by February 22.

The industry expects that once the firm emerges from capital erosion through a debt-for-equity swap, it will get back on track and smoothly wrap up the sale process.

One construction industry official said, "300 billion won is too cheap for Ssangyong E&C, a globally competitive firm in the field of high-end construction," adding, "Once the swap gets finished, not just VVL but other companies will come forward showing keen interest in the deal."

The company has turned in 183.4 billion won of profits overseas and injected 300 billion won worth of liquidity into the domestic business unit over the last three years. It is currently involved in 3 trillion won worth of projects without ever bidding below cost. It is competitive enough overseas to be currently participating in bidding process for the 19 trillion won worth of projects after passing Pre-Qualification.

Meanwhile, if no decision as to whether or not to move forward with a debt-for-equity swap was made by April 1, a deadline for submission of business report, the construction firm will go through a delisting procedure.

Daewoo Shipbuilding & Marine Engineering

Awarded Contract for Fixed Platform Worth US\$ 1.1 Billion



Daewoo Shipbuilding & Marine Engineering (DSME) said on February 21 that it has been awarded the contract for a fixed-platform topside unit for oil production by Norwegian state-owned oil company Statoil.

The value of the contract is about US\$ 1.1 billion (about 1.2 trillion won). DSME will fabricate this marine structure at Okpo Shipyard located in South Korea's southern island Geoje-do, and then install it in the Norwegian offshore oil field by the end of 2016.

After being installed in the Dagny field on the Norwegian continental shelf, the 17,000-ton fixed platform will be able to produce 63,000 barrels of crude oil and 90,000m³ of natural gas per day.

Given the fact that the structure will be operated in harsh and severely cold weather conditions of the North Sea region, DSME will build it in accordance with the tricky regional construction regulations. In this regard, the company will cooperate with local engineering companies including Aker Solutions and Aker MMO.

In the meantime, DSME broke the record of US\$ 10 billion-orders for construction of marine structures last year, for the first time in the global shipbuilding industry. And, this year, the company has secured a total of US\$ 2.7 billion orders from the maritime construction sector until now.

A source from DSME said, “It is essential to have comprehensive project management capabilities if you want to successfully implement the whole process of constructing high-value added marine structures, from designing to test-running. We will keep trying to win orders for offshore platforms based on our successful experience of construction and delivery of more than 30 fixed-platform units.”

Samsung Engineering

Winning Plant Construction Contract in Iraq

Samsung Engineering announced on February 5 that it signed a contract worth US\$880 million with Gazprom to construct a large-scale gas separation plant (GSP) in Badra, Iraq.

During the course of the project, Samsung Engineering builds a gas refinery with an area of 200 million cubic feet along with power generation facilities and storage tanks in the Badra Oilfield Complex located in Wasit, which is about 160km to the southeast from Baghdad, over a 35-month period. The company won the contract on a lump sum turnkey basis.

This is the first time that Samsung Engineering works together with the state-run natural gas company of Russia. Gazprom is one of the world's largest energy companies, accounting for 25% of the country's GDP and 20% of the global natural gas production. Samsung Engineering is expecting that their joint project at this time will lead to further



Alexander Kolomatsky of Gazprom Neft (left) and Steve Fludder of Samsung Engineering

Offshore Plant Project in Nigeria

Samsung, Hyundai Clash with Each Other



Hyundai Heavy Industries and Samsung Heavy Industries take on each other for the Egina Project in Nigeria, which is the offshore plant construction project worth US\$2.5 billion expected to be the largest one of its kind this year. Industry insiders are predicting that the latter, which has joined the bidding at the last minute, is having the upper hand over the former.

The contractor to build the floating production, storage and offloading (FPSO) facilities is determined in March. The facilities that have a total storage capacity of 2.3 million barrels are going to be used to produce crude oil in the Egina Offshore Oilfield

approximately 200km away from the Nigerian coast. The Egina Oilfield's probable reserves are estimated at about 550 million barrels and the China National Offshore Oil Corporation (CNOOC) and French company Total own 45% and 24% of shares in the oilfield at present, respectively. The business license is given by the Nigerian National Petroleum Corporation (NNPC).

Total, after launching the project and inviting tenders in the first half of last year, selected Hyundai Heavy Industries as the preferred bidder. Though the final contract was postponed, Hyundai was the strongest candidate to win the deal because it has built an onshore plant in Nigeria and won two FPSO construction projects from Total. Also, its local production ratio has been higher than that of Samsung Heavy Industries, meaning it can create more jobs in the country.

However, news has been heard since late last year that Samsung Heavy Industries is going to take the place of Hyundai. According to local news sources, the NNPC has opted for Samsung although Total is still in favor of Hyundai. The amount of US\$2.5 billion is close to 10% of the total value of orders Hyundai aims to achieve this year, US\$29.7 billion. Samsung, on its part, can meet 20% of its annual target of US\$13 billion at one go once it is selected as the final contractor.

It is hard to know what has brought the change because bidding details have not been made public. Industry experts are guessing that the potential capabilities of Samsung Heavy Industries, which is currently enjoying the highest share in the global drillship market, were recognized by the NNPC.

Still, no one can say for sure how things will be going for the two rivals. “We heard that Total has raised an objection to the decision of the Nigerian government,” said Samsung, adding, “We’ve received no official notice yet but expect that the final decision will be made next month.” Hyundai remarked, “The final result will be available only after the official announcement is made in Nigeria.”

business cooperation down the road.

“We’re second to none worldwide in terms of gas refinery construction technology,” said Samsung Engineering CEO Park Ki-suk, adding, “We’ll establish a long-term partnership with Gazprom by completing the project well.”

GS E&C

The Sales Hit 9.29 Trillion Won, up 3% from a Year Earlier

GS Engineering & Construction’s sales hit 9.29 trillion won last year, up 3 percent from a year earlier, as its overseas contracts in areas such as plant and civil engineering were reflected in sales.

In a fair disclosure made on February 7, the company announced that it recorded 9.29 trillion won in sales, 160 billion in operating profit, and 9.107 trillion in contracts it won last year.



The company appears to have fared well on the surface, but a closer look reveals that it suffered. Being at an early stage of diversification of types of work in large-scale projects and of expansion into new markets, the company’s operating profit didn’t do well as expected. Also, a rise in cost rates due to overheated overseas plant markets and failure to reflect overseas deals into sales as a result of protracted contracts drove the company to record deficits of 80 billion won in Q4 alone.

Operating profit on an annual cumulative basis stood at a mere 160 billion won, down 63% from the previous year.

In terms of overseas contracts, the

Samsung C&T

Participating in Subway Construction Project in Delhi, India

Samsung C&T Corporation won an additional subway construction contract worth approximately 80 billion won in Delhi, India.

The company announced on February 13 that it was selected as the contractor to take charge of the CC-34 tunnel section of the third phase of the subway construction project launched by the Delhi Metro Rail Corporation (DMRC). A total of US\$163 million is scheduled to be invested in it and Samsung C&T is going to burden 50% of the cost moving ahead with the construction with local companies. The third stage of the project is to build 33.5km-long subway tracks between Janakpuri and Kalindi Kunj.

“These days, Indian cities are constructing or planning to construct subways systems one after another,” said the company, adding, “We’ll clinch more deals down the road building on their trust in us as a reliable business partner in possession of the most advanced technologies.”

Earlier, Samsung C&T has participated in the MC1B project, in which 8.2km-long subway lines were built during the first phase of the undertaking. Also, it has taken part in the construction of the BC-18 section by building a 3.8km-long tunnel and two underground subway stations as well as airport subway lines.



company remained competitive in the Middle East by winning deals such as Rabig Project (some 2.740 trillion won) and PP-12 Power Plant Project (some 727 billion won) in Saudi Arabia.


In Asia, the Korean firm produced tangible results in terms of diversifying its target markets and types of works by winning contracts such as UHV Plant Project (some 690 billion won) in Thailand and Ng Teng Fong Hospital Construction Project (some 593 billion won) in Singapore.

Doosan Heavy I&C

Supplying Waste Recycling Equipment in Poland

Doosan Lentjes, a German subsidiary of Doosan Heavy Industries & Construction (CEO Park Ji-won), signed a contract with POSCO E&C on February 7 to supply two incinerator boiler units and related equipment to the household waste recycling facilities in Krakow,

Poland. The contract amount is approximately 32 million euros.

Down the road, Doosan Lentjes is going to supply the waste recycling equipment that are capable of turning 220,000 tons of wastes into energy sources a year. Earlier, POSCO E&C had clinched the deal for the facilities from Krakow City. The installation is built between July this year and December 2015 and then produces 95,000MW of electricity by recycling domestic wastes. 



Doosan Lentjes COO Thomas Wehrheim (right) and POSCO E&C managing director Kim Hak-yong participated in the signing ceremony.

Korean Air to Expand Its Network

Launching Direct Routes to Sri Lanka and the Maldives

Starting March 9th this year, Korean Air will launch regular flights to Sri Lanka (Colombo) and the Maldives to offer enhanced convenience for passengers travelling to South India, including Chennai

The flight from Incheon - Colombo - Maldives will operate three times a week (Mon., Wed., Sat.), departing Incheon at 10:40 p.m. and arriving in Colombo at 04:10 a.m. local time. The flight will depart Colombo at 05:40 a.m., and land in the Maldives at 06:40 a.m. local time.

The return flight will depart the Maldives at 03:30 p.m. local time and arrive in Colombo at 05:30 p.m. local time. This will then depart Colombo at 06:50 p.m. and land in Seoul/Incheon at 06:10 the next day.

As part of efforts to offer enhanced convenience for passengers travelling to the Maldives, the airline has created flight schedules that land in the morning and depart in the afternoon.

The new Incheon - Sri Lanka (Colombo) - the Maldives route will feature an Airbus 330-300, seating 276 passengers, and equipped with the latest Audio & Video on Demand (AVOD) system to ensure that all passengers enjoy a comfortable, pleasant flight.

A hub of economic and cultural activities, Colombo - the capital city of Sri Lanka - is a mediator of marine transport as well as the biggest city in the country, and boasts a splendid mixture of both Western and Eastern influences.

The country has no shortage of tourist attractions: many historic Buddhist locations that flourished along with the ancient Sinhalese dynasty, such as "Polonnaruwa", "Anuradhapura" and "Kandy"; Sinharaja Forest Reserve, a



national park and biodiversity hotspot designated a World Heritage site by the United Nations Educational, Scientific and Cultural Organization (UNESCO); and "Nuwara Eliya", the most famous district for Ceylon Tea.

In addition, the beautiful gold sand beaches of "Galle" and "Hambantota" and exciting Safari tours at "Yala National Park" and "Bundala National Park" are also popular tourist destinations.

In the Indian Ocean, South West of Sri Lanka, lies the Maldives, and often referred to as "Heaven on Earth." It is a perfect country for honeymooners and families to enjoy marine sports and relax.

The country, which is made up of some 1,192 islands, big and small, is characterized by intense sun, and is sur-

rounded by pristine white sandy beaches, emerald sea, and colorful underwater coral gardens. Its ancient beauty remains so untouched that Marco Polo once described it as the "flower of the Indies."

By opening direct routes to Sri Lanka and the Maldives, thus allowing for faster and more convenient travel to areas in the south of India such as Chennai, Korean Air expects exchanges in human and material resources to grow.

Since the beginning of 2012, the airline has actively launched new routes, including Da Nang Vietnam in January, Kenya Nairobi in June, Yangon Myanmar in September, and Saudi Arabia in November, as part of efforts to secure competitiveness through expansion of its global network. 

Departing flight

Route	Flight Number	Departure	Arrival
Incheon ~ Colombo	KE473	22:40	04:10 +1
Colombo ~ Maldives		05:40 +1	06:40 +1

Return flight

Route	Flight Number	Departure	Arrival
Maldives ~ Colombo	KE474	15:30	17:30
Colombo ~ Incheon		18:50	06:10 +1

Incheon Port Authority

Under Massive Expansion

Exchanging culture and products throughout history, Incheon Port is now trying to meet new challenges



Kim Choon-sun, the President of IPA

This year marked the 130th year of Incheon Port, which has emerged as an international hub of logistics in North-east Asia. BusinessKorea had an interview with Kim Choon-sun, President of Incheon Port Authority (IPA), which is dreaming of a second leap forward as the central axis of the Incheon economy.

Please tell us your feelings about the 130th anniversary of Incheon Port.

I don't think the number "130" has special meanings in itself. The important thing is this number or point of time should trigger us to look back at our past and measure our future.

Actually, Incheon Port did not open 130 years ago. Its history began when the ancient Biryu tribe settled in Michuhol to establish the nation called "Baekje" and dominated the Santung area. Throughout history, the port has existed, exchanging culture and products of civilization.

What kind of influence do you think Incheon Port has exerted on the city of Incheon?

At the center of the city of Incheon's

change was Incheon Port. The growth of the port was in fact the growth of the city, and the economic vitality of the port was the same as that of the city.

In the past, Incheon has had a clear image and identity as a port city. But now, the city's expansion and development have been driven in a wider direction through multiple growth engines.

For example, in the past, the port was like the heart of the city and industrial complexes clustered around its hinterland. Now, however, since the international airport began operating, new kinds of manpower, resources and information have circulated across the city.

Could you give us a brief explanation as to your management policy this year?

Our economic environment is not something easy to deal with. The International Monetary Fund estimated global economic growth at 3.3% in 2012 and 3.6% this year.

To adapt ourselves to the "long-term low-growth" environment, we need to do risk management and detail modifications in our jobs and businesses more often. Furthermore, we need to strengthen our fundamental capacity through organizational advancement.

Please introduce the businesses that you are going to place emphasis on this year.

First of all, we will continue to push forward with the construction of infrastructure as scheduled. As you may know, ICOPA has massive expansion projects underway, including the New Port, the International Passenger Terminal, and the hinterland logistics base. These

projects are no doubt our top priorities.

We have secured necessary budgets from the National Assembly regarding the New Port project. The important things are to successfully deepen the water route to a depth of minus 16 meters and to normalize construction of the topside facilities as early as possible so as to begin operations as scheduled.


The International Passenger Terminal project includes the construction of piers and terminals, as well as development of the hinterland area. We are going to open part of the cruise terminal first in order to ensure a successful Incheon Asian Games in 2014.

In addition, we will map out land use plans for terminals and hinterland areas, including the nearby second Aham logistics complex site. This issue is related to the local government's urban plans and the central government's designation and operation of a Free Economic Zone. We will finalize the master plan through complicated procedures and processes.

Please give an explanation of your goal to secure freight cargo, the major function of a harbor.

I think we can handle more than 2 million TEUs this year if we step up our efforts to attract ship companies and freight cargo.

As global uncertainties caused by the European fiscal crisis and the American financial cliff issue are gradually diminished, I think Korea-China trade will quickly recover. Meanwhile, trade with Southeast Asian countries is in a steady upward trend.

I expect Incheon Port will see a drastic increase in cargo volume after 2015 when the New Port begins operations. 

Anti-Dumped Korean Steel Sheets

The US Removed the Duties against Korea in 20 Years

The US government removed the anti-dumping and countervailing duties against Korean cold-rolled steel sheets and zinc-coated steel sheets in 20 years.

The US Department of Commerce and the International Trade Commission (ITC) decided as of February 15 (local time) to remove these duties, which had been imposed on cold-rolled steel sheets and zinc-coated steel sheets produced by Korea's two major steel makers – POSCO and Dongbu Steel – from 1993 till last year, said a local source on February 20.

According to the source, the ITC believes lifting of such tariffs will not undermine the US steel industry.

The US authorities let the ITC conduct investigations on those Korean imports in July 1992 and imposed maximums of 4.8% and 1.26% of anti-dumping and countervailing duties, respectively, from the next year. They had regular deliberation sessions for this matter in 1999 and 2005, and decided to maintain the duties each time. However, as a result of the recent deliberation started last year, they agreed to stop imposing the duties.

POSCO and Dongbu Steel's combined exports of those items to the US amounted to US\$ 365 million in 2011, accounting for 4.2% of their worldwide exports (US\$ 8,636 million).

Petroleum Products

Remaining Nation's Top Export Item for 2 Yrs in a Row

Petroleum products are selling well to foreign countries to become the nation's top export item for two years in a row.

According to Korea Petroleum Association (KPA) on February 11, exports of petroleum products rose 11.7% year-



on-year to US\$4.93 billion last month, the largest among the nation's all export items.

Petroleum products are followed by automobiles (US\$4.26 billion), petrochemicals (US\$4.2 billion), and semiconductors (US\$4.0 billion).

Petroleum products accounted for 10.7% of the nation's total monthly exports (US\$ 46.08 billion), surpassing their record high (10.3%) for the year of 2012.

The January exports of petroleum products were the typical "high volume, low margin" sales. Due to the downward trend in international crude oil prices, the export price dropped to US\$121 per barrel last month from US\$123 per barrel a year ago. However, thanks to the expanded demand for heating oil, the export volume swelled to 40.52 barrels from 35.5 barrels, up 14.1% year-on-year.

Petroleum products emerged as the nation's top export item in 2012 with the record-breaking export amounting to US\$ 56.2 billion.

KPA predicts that exports of petroleum products will rise 5.6% to about US\$ 58 billion this year, making up the largest part of the nation's exports once again.

Pulmuone

Raising 400 Billion Won for Global Investment

Pulmuone's plan to raise a 400 billion won global fund in affiliation with National Pension Service (NPS) is mov-

ing forward at a rapid pace. Its strategy to explore overseas markets through M&A seems to gain traction.


According to the investment banking industry on February 3, the nation's leading environment-friendly food company has recently submitted a proposal to NPS to form a Corporate Partnership Private Equity Fund (PEF).

This proposal is that each of Pulmuone and NPS shall pay 200 billion won for M&A deals with foreign companies in the US and China.

NPS is expected to have an investment committee meeting to approve the proposal as early as this week. In this regard, Pulmuone signed a memorandum of understanding with NPS in September last year.

Corporate Partnership is a way of arranging one-to-one matching joint funds where NPS participates as a financial investor for domestic firms' overseas M&A deals.

The Pulmuone project is particularly meaningful because it is the first case that NPS holds hands with mid-sized companies, not with large companies, to form such kind of a fund. The fund will be managed by Korea Bio-technology Investment (KBIC), one of Pulmuone's affiliates, and Global and Associates (G&A), a PEF management company.

Pulmuone has sought for opportunities to expand its business to the US and China for years. Now it is more actively moving forward to take over local companies in these markets. It is said that Pulmuone is already in the process of reviewing alternatives. 



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In East Asian cultures, a brush dipped into freshly ground ink is used to create calligraphy and art

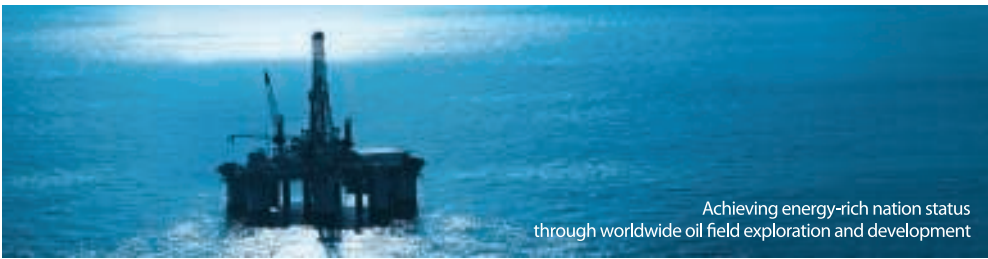
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